Crisis and Leviathan

CRITICAL EPISODES IN THE GROWTH OF AMERICAN GOVERNMENT

ROBERT HIGGS

CHAPTER TEN

Crisis and Leviathan: From World War II to the 1980s

This is the one song everyone
would like to learn: the song
that is irresistible:
the song that forces men
to leap overboard in squadrons
even though they see the beached skulls.

MARGARET ATWOOD

By the end of World War II, as Jonathan Hughes has written, "the balance of economic power had been altered for good, away from the primacy of private decision making and into the arena of government and politics."[1] Three decades of crisis after crisis had left the free-market system, once the predominant national institution for the pricing and allocation of resources, constrained and corrupted almost beyond recognition. Strangely, economics textbooks continued to be written and many people continued to talk as if the American economy remained essentially a free-market system. Left-wing radicals continued to castigate American "capitalism," something that certainly had not existed since the 1920s, perhaps not since before World War I. One could for various reasons dislike the socioeconomic regime of the post–World War II era, but what one was disliking was by the standard criteria surely not capitalism.

To recognize that capitalism no longer existed and that some kind of "mixed economy" had come fully into sway does not conclude the story. The great transformation that had been completed by the late 1940s entailed not only that governmental officials henceforth would either make or effectively constrain many of the economic decisions previously made by autonomous private citizens. It entailed also, and more portentously, that the dynamics of the political economy from that time forward would take a different shape. Under the new rules the game would be played differently,

and its sequence of outcomes would differ as well. Most significantly the new regime possessed no enduringly effective checks on the continuing growth of government. Once the fundamental barriers of a restrictive ideology and the old Constitution had been battered down, persistent political forces pushing toward Bigger Government could exert themselves virtually without limit.

Added to the now unchecked "normal" growth of government were the effects of recurring postwar crises and, even more fundamentally, the consequences of that permanent emergency known as the Cold War. First in Korea, then in Vietnam, massive military adventures gave the usual fillip to the powers of government. Concurrently with the Vietnam War a violent unraveling of the civil-rights movement, marked by large-scale riots, arson, and other disturbances in cities across the nation, prompted new governmental programs to deal with the so-called urban crisis. Partisans of other causes—environmentalists, "consumerists," egalitarian redistributionists, and those dedicated to eliminating a variety of workaday risks to life and health—organized to exploit the potential created by the more significant political forces opposing the war or promoting the interests of blacks and other ethnic minority groups.

Throughout the post–World War II era, in war and peace, in storms of international conflict and lulls of détente, the military-industrial complex consumed a variable but always substantial portion of the nation's resources. The planning, production, and deployment of armaments occupied an exceptionally large proportion of the technical and scientific work force, at the heavy cost of forgone opportunities for innovation in civilian production. Comprising an enormous coalition of military officers, politicians, contractors, labor unions, universities, and research organizations, all financed on a grand scale by citizens whose natural fears were kept chronically aroused by Pentagon propaganda, this huge nonmarket system directed hundreds upon hundreds of billions of dollars into the pockets of its privileged participants.[2] Never did so many prosper so much by feeding on fear.

In an atmosphere of unending crisis the emergency game became one of the most common gambits in the political economy. No grasping interest-group proposal was complete without the claim that it ought to be carried out because "an emergency exists." Many people eventually grew jaded, having heard the bogus claim so often, but its continued assertion suggests that the emergency game still promises a positive payoff. Sometimes, most notably with the wage-price controls and the energy controls of the 1970s, the game was played with huge stakes. Even under the Tory administration of Ronald Reagan, emergency claims continued to be pressed, and honored. Special farm loans, international travel restrictions, and export controls exemplify the recent emergency actions taken by the "conservative" American government.[3]

THE MIXED ECONOMY: MARCH INTO SOCIALISM OR FASCISM?

Joseph Schumpeter, one of the most celebrated social scientists of the twentieth century, delivered his final public address on December 30, 1949, just nine days before he died. He entitled the talk, which dealt with the probable future of the American economy, "The March into Socialism." Forswearing any pretense of absolute knowledge of the future, Schumpeter claimed only a vision based on past tendencies and the logic by which one might reasonably expect the tendencies to work themselves out. While his analysis of the politico-economic dynamics of Western countries pointed to socialism as the "likely heir apparent," he recognized several other possibilities, including one in which the political economy would become lodged in a "halfway house" short of full-fledged socialism.[4]

The Schumpeterian model of politico-economic dynamics, which indicates a probable transition from capitalism to socialism, rests on four central propositions: (1) Large corporate firms, bureaucratically managed and routinely innovative, displace the entrepreneurs and owner-managers of classic capitalism, thereby shrinking the size, attenuating the economic function, and diminishing the social and political standing of the business class. (2) As capitalism matures, society grows ever more "rational," which causes a loss of respect for and allegiance to such extra-rational institutions as private property rights and freedom of contract. (3) Capitalism nurtures a growing intellectual class that, ironically, is inherently hostile toward the system that makes possible its existence. (4) As the opposition of intellectuals, labor unionists, and their allies mounts, the bourgeoisie loses faith in its traditional values and ideals; its defense of the free-market system grows steadily weaker as it accommodates itself to a political environment that gives ever greater priority to social security, equality, and governmental regulation and planning. While Schumpeter recognized at the end of the 1940s a residual capitalist vitality in the American economic order, he emphasized that "we have traveled far indeed from the principles of laissez-faire capitalism."[5]

Although he conceded that crises such as war or depression would accelerate the secular tendencies, he denied that "any mere 'events,' even events of the importance of 'total wars,' or the political situations created thereby, or any attitudes or feelings entertained by individuals or groups on the subject of these situations, dominate the long-run contours of social history—these are a matter of much deeper forces." Mere events could only "remove obstacles from the path of the more fundamental tendencies. . . . Evolution toward socialism would be slower" in the absence of social crises "but also steadier."[6] In the long run, Schumpeter concluded, chronic inflation plays a crucial role in the process by which the capitalist order breaks down: the

economy will pass through a succession of wage-price controls into complete socialism.[7]

Schumpeter's ideas have been evaluated and reevaluated in great detail. While almost everyone acknowledges his penetrating insights into politico-economic dynamics, critics generally have concluded that Schumpeter's vision harbors unsolved problems and unwarranted inferences and suffers from considerable vagueness in critical components of the analysis. For present purposes several questions are pertinent, all relating to ideas Schumpeter seems to have derived from Marxism.[8]

First, is the growth of government that has occurred in the United States since Schumpeter issued his final forecast really a march into socialism? Certainly many conservatives have characterized it as "creeping socialism." Social scientists generally presume that extensions of the government's control over the economy constitute in effect moves toward socialism. One may seriously question, however, whether this characterization is the most descriptively accurate one available in the terminology of social science. As William Fellner pointed out, Schumpeter's analysis "leaves the question open why the decomposition of Western-type systems could not lead to a non-socialist variety of 'fascism.'" Schumpeter himself only hinted at the possibility in passing remarks, as when he observed that the future is unlikely to bring "the advent of the civilization of which orthodox socialists dream. It is much more likely to present fascist features."[9]

If by socialism one understands, as Schumpeter in his celebrated book generally did, a high degree of outright public ownership and management by governmental planners of industry, agriculture, and public utilities, then the United States since 1945 clearly has not marched far into socialism.[10] As the American mixed economy has developed, the tendency has been to destroy the substance more than the form of private ownership. The most common methods of governmental control have been not explicit takeovers but rather heavy taxation and subsidization (often in hidden forms) and, especially, extensive regulation of ostensibly private activities. Although critics decry the pervasive governmental intrusion in the economy as "socialistic," it clearly has not produced an economic order resembling any standard form of socialism.

Has it instead produced "fascism"? The term unfortunately has been abused by Americans in at least two distinct ways. On the one hand, "fascist" serves merely as a loose term of opprobrium by which radical leftists characterize anything they dislike about the present political economy. On the other hand, and more commonly, it simply brings to mind the regimes of Mussolini and Hitler, which are generally considered to have nothing in common with the postwar political economy of the United States. Indeed most Americans find the mere suggestion of such similarities offensive and

repellent—did Americans not spill their blood to destroy the fascist regimes?—and refuse to consider seriously the possibility that the United States may be fascist in some respects.

The term *fascism*, however, has a definite meaning; and one may employ it as an analytical concept independent of distasteful historical exemplars. As Charlotte Twight has shown, the essence of fascism is nationalistic collectivism, the affirmation that the "national interest" should take precedence over the rights of individuals. So deeply has the presumption of individual subservience to the state entered into the thinking of modern Americans that few people have noticed—and no doubt many would be offended by the suggestion—that fascism has colored countless declarations by public officials during the past fifty years. Unfortunately, as Friedrich Hayek noted during World War II, "many who think themselves infinitely superior to the aberrations of naziism, and sincerely hate all its manifestations, work at the same time for ideals whose realization would lead straight to the abhorred tyranny."[11]

More than anything else, the peacetime military draft signaled the triumph of fascist sentiment in the post–World War II era. "There existed," wrote Richard Gillam, "a state of quiet consensus that America had entered a period of perpetual national emergency which demanded and justified creation of a garrison state based on peacetime military conscription." For more than twenty years, periodic extensions of the draft law took place with little or no debate. No one in Congress stood up in favor of voluntarism or an individual right of ownership over one's own body and one's own life. "Gone was any sense that conscription itself violated ideals which were once themselves seen as vital" to the American way of life.[12] When Richard Nixon ended the draft in the early 1970s he acted not so much to restore a traditional individual liberty as for reasons of political expediency, hoping to diminish the troublesome opposition of students and others to the administration's conduct of the war in Vietnam.[13] Even in the mid-1980s the fascist idea that the government has a superior claim to the lives of innocent citizens whenever political leaders deem military conscription necessary retains its grip on the thinking of elites and masses alike. Young men are required by law to register for a draft—and sent to federal prison for conspicuous failure to comply—even though no conscription is presently authorized. Only the absence of an emergency prompting a large increase in the number of people under arms permits the volunteer military system to survive.

Alone among collectivist systems, fascism preserves private property, but "capitalism is turned inside out in this unlikely union." Fascism recognizes people's desire to possess private property and admires the strength of the profit motive, but it "uses these features of capitalism [only] *insofar as they do not conflict with the national interest as formulated by fascism's political authori-*

ties." Every part of economic life is ideologically, constitutionally, and legally vulnerable to governmental control. Hence "fascism tolerates the *form* of private ownership at the government's pleasure, but it eliminates any meaningful *right* of private property." It is "a bogus capitalism indeed, a sham deferral to individual economic rights readily nullified whenever political leaders deem it expedient."[14]

Twight argues that this abstract description of fascist economic policy matches in detail not only the actions of the regimes of Hitler and Mussolini but the practice of the government of the United States since World War II. Of course the fanatical hero worship, the general suppression of civil and political rights, and the mass murders that marked the fascism of Germany and Italy have not characterized the American case. But the similarities of economic policy are striking. All fascist systems have imposed the same sweeping controls over such "vital" industries as agriculture, energy, transportation, communications, and armaments whenever the political authorities deemed the controls appropriate; all have heavily regulated the labor markets and union-management relations; all have captured the financial and money-supply mechanisms and used them to promote "national" objectives; all have resorted, at least episodically, to wage-price controls and physical allocations; all have extensively controlled international travel and international exchanges of goods, financial capital, and currencies; all have employed a huge administrative corps to monitor private activities and to formulate and enforce governmental directives. In all cases a coalition of big business and the government has emerged, as "fascism's abrogation of the market in favor of political control over the economy inherently favors big business at the expense of the small entrepreneur." Characteristically there has been an "extensive interchange of positions between ranking civil servants and high corporate executives"—the revolving door familiar at the highest levels of American government, especially but by no means exclusively between the Pentagon and the major defense contractors.[15]

In recognition of the apparent openness of the American political system and the "care and attention . . . devoted to the formal trappings of due process," Twight calls the political economy of the United States "participatory fascism." There is an "ostensible inclusion of all potential dissident parties within the government's decision-making process." This "provides the appearance of fairness"; it placates the losers in the policy struggles, who settle for having had their views considered. Thus "the bright facade of fair procedure blinds the public to the system's fundamental abrogation of individual economic freedom."[16] Evidently Schumpeter missed the mark: America's political economy has marched not into socialism as he understood it but rather into an arrangement more accurately described as participatory fascism.

Schumpeter's vision of the future political economy went awry in part because he misperceived the character of the individuals and groups effectively contending over it and thereby determining its form. Adopting a modified Marxian two-class scheme, he viewed the major contending parties as on one side the bourgeoisie or "business class," the only potential defenders of capitalism, and on the other side the labor unionists and intellectuals and governmental bureaucrats, who seek to tear down capitalism and replace it with socialism or at least with what he sometimes called "laborism." For one who constantly espoused taking the long view, Schumpeter appears in retrospect to have been too much impressed by the rise of organized labor and by the disaffection of big business from the Roosevelt administration after 1935. He failed to appreciate how much the abandonment of traditional economic liberties over the long run had resulted not from the acquiescence or defeat of businessmen but from their enthusiastic sponsorship. As Douglass North has pointed out, "conflicts amongst propertied groups . . . set off the growth of government regulation." Businessmen have done more than their full share to foster the active regulatory state from its very inception.[17]

Consider William Simon's recent description of the relation of business and government as he witnessed it during his tenure as Secretary of the Treasury in the 1970s:

> I watched with incredulity as businessmen ran to the government in every crisis, whining for handouts or protection from the very competition that has made this system so productive. I saw Texas ranchers, hit by drought, demanding government-guaranteed loans; giant milk cooperatives lobbying for higher price supports; major airlines fighting deregulation to preserve their monopoly status; giant companies like Lockheed seeking federal assistance to rescue them from sheer inefficiency; bankers, like David Rockefeller, demanding government bailouts to protect them from their ill-conceived investments; network executives, like William Paley of CBS, fighting to preserve regulatory restrictions and to block the emergence of competitive cable and pay TV. And always, such gentlemen proclaimed their devotion to free enterprise and their opposition to the arbitrary intervention into our economic life by the state. Except, of course, for their own case, which was always unique and which was justified by their immense concern for the public interest.[18]

One wonders whether anyone—with the possible exception of a few right-wing ideologues—any longer supports the free-market system as an inviolable desideratum; whether anyone is willing to bear its costs in order to preserve its benefits. Talk is cheap, and accordingly business people often talk as if they favor capitalism. But the blatant hypocrisy of their rhetoric suggests that it is either a political device, deliberately employed as part of a "public relations" strategy, or a mindless reflex inherited from the past and readily abandoned when it seems incompatible with short-run gain.

Leland Yeager has argued that business people "as such" have no strong

interest in limiting governmental activism. Business interests frequently profit from constraints on the market economy. Firms can usually cope with regulation, even when it is not immediately beneficial. Indeed "[t]he prospects for businessmen of ordinary ability relative to the prospects of the most dynamic entrepreneurs may even be better in a highly regulated economy than under substantial laissez faire." Leftist ideology notwithstanding, "Businessmen as such, rather than simply as human beings, are not the main beneficiaries of a free economy."[19] They know this and act accordingly.

Besides misconstruing the relation of the business class to the preservation of capitalism, Schumpeter persistently underestimated how much governmental authorities would act not as an executive committee of the bourgeoisie, or of any other group, but as interested parties in their own right, especially during crises. By accepting the classic Marxian formulation of socioeconomic change propelled by "the" class struggle as his point of departure, he failed to appreciate the emergence of a separate "class," neither bourgeoise nor proletarian, possessing sufficient autonomy to pursue interests exclusively its own, whether material or ideological.

Finally the Marxian foundations of Schumpeter's thought served him poorly in his assessment of crises. As I have argued above in some detail, what he called "mere events" played a supremely important part in the historical breakdown of the free-market regime. In his insistence on the preeminence of so-called more fundamental tendencies, he disregarded his own observation that "the very concept of historical sequence implies the occurrence of irreversible changes in the economic structure which must be expected to affect the law of any given economic quantity"—*a fortiori* the evolution of any politico-economic system.[20] Such irreversibilities, giving "mere events" magnified and enduring significance, marked American historical development after 1950, too.

CRISIS AND LEVIATHAN: THE RECENT EPISODES

Not long after the Truman administration committed the armed forces of the United States to fight in Korea the government greatly expanded its powers over the American economy. A leader in moving public opinion to favor the strong controls was—*mirabile dictu*—Bernard Baruch, the gray eminence still going strong at age eighty-one in his performances before news reporters and congressional committees. On September 8, 1950, the Baruch-inspired Defense Production Act became law, empowering the President to mobilize resources for the war. Under authority granted him by this act, Harry Truman issued Executive Order 10161, delegating his economic war powers

to various administrators and creating such agencies as the National Production Authority, which set up rules for a priority system, and the Economic Stabilization Agency, which arranged for wage-price controls.[21]

On December 16, 1950, in response to "the increasing menace of the forces of communist aggression," Truman proclaimed a national emergency. Urging that individuals lay aside their own interests in favor of the "national interest" as he and his political pals had defined it, he summoned

> all citizens to make a united effort for the security and well-being of our beloved country and to place its needs foremost in thought and action . . . our farmers, our workers in industry, and our businessmen to make a mighty production effort . . . and to subordinate all lesser interests to the common good . . . every person and every community to make . . . whatever sacrifices are necessary for the welfare of the Nation . . . all state and local leaders and officials to cooperate fully with the military and civilian defense agencies of the United States in the national defense program.[22]

The President established the Office of Defense Mobilization to coordinate the war program and the Defense Production Agency to oversee the production controls. On January 26, 1951, the ESA issued regulations to control wages and prices. In July 1951 a Controlled Materials Plan patterned after that used in World War II was initiated; it became fully effective three months later. Additional controls were imposed on shipping, credit, and the production of consumer durable goods.[23]

Despite the many controls imposed, the government's mobilization of the economy during the Korean War never reached the extremes experienced during the Big One. It was simply a much smaller war, only about one-third (5.8 million military personnel) or one-sixth (1.6 million draftees) or one-eighth (54,000 total deaths) as big. Adjusted for changes in the price index for federal purchases, the $54 billion original cost of the Korean War is about one-eighth as much as the corresponding outlay during World War II.[24] Although the controls were imposed quicker than before —"evidence that the American public was growing accustomed to the type of action that must be taken in economic mobilization"—the limited scale of the war meant that the government did not need to divert resources from civilian to military uses so forcefully as before.[25] To a greater extent, ordinary fiscal and market devices could serve the government's purposes satisfactorily. Because much smaller costs had to be borne, the government had less incentive to adopt cost-concealing methods of capturing resources. As an expert on the economics of war described it, the mobilization for the Korean War was "part way between the methods of free enterprise and the strong governmental control and regulation of World War II."[26]

The limitations of the government's program became clear in the steel seizure episode. Placed in an uncomfortable political position by a dead-

locked union-management dispute that threatened a nationwide strike, Truman directed the Secretary of Commerce to seize and operate the steel industry in April 1952. The owners obtained an injunction to prevent the seizure. The Supreme Court upheld the injunction by a 6 to 3 vote in the *Youngstown* case decided June 2, 1952. Although the Court thereby denied Truman—by that time a very unpopular President—a power previously exercised freely by Wilson and FDR, the decision did not impose a restriction on the government's power to take private property. It restrained only a presidential taking without specific statutory authorization. As Justice Hugo Black said in announcing the majority's opinion, "This is a job for the Nation's lawmakers, not for its military authorities." Justice Robert Jackson, in a concurring opinion, emphasized "the ease, expedition and safety with which Congress can grant and has granted large emergency powers." Neither the majority nor the minority gave any weight to private property rights. While the majority objected only to Truman's presidential high-handedness, the minority grumbled that "such a [presidential] power of seizure has been accepted throughout our history."[27] The Constitution was read in this case, as in many others, not as a bulwark against governmental oppression of private citizens but rather as the institutional setting within which high officials in the different branches of government conduct their internecine struggles for supremacy.

After cessation of the fighting in Korea the United States enjoyed a decade of respite from the growth of governmental authority over economic affairs. The wartime wage-price and production controls lapsed, although the authority to reinstitute the production controls remained. No major extensions of the government's economic controls were enacted. Big Government did not disappear; virtually all the controls that had been created before 1950 remained in force. But businessmen, according to Herbert Stein, "had learned to live with and accept most of the regulations." Disturbed only by new and unfamiliar regulations, "they regard the regulations they are used to as being freedom."[28] Governmental spending, especially for Social Security benefits, crept upward. All in all, however, the administrations of Eisenhower and Kennedy were remarkably placid in comparison with those that preceded and followed them.

Under LBJ and Nixon the federal government's intrusion in the economy took another leap. As Table 10.1 shows, many major regulatory laws were enacted during 1964–1976. The bulk of the legislation belongs to five broad areas: (1) protection of consumers from dangerous, defective, or misrepresented products; (2) protection of employees and consumers from discrimination based on race, sex, age, or handicap; (3) protection of the natural environment from various kinds of pollution; (4) protection of employees from workplace risks of injury or disease; (5) wage-price controls and

Table 10.1
Major Federal Regulatory Legislation, 1964–1976

1964	Civil Rights Act
1966	Traffic Safety Act
	Coal Mine Safety Amendments
1967	Flammable Fabrics Act
	Age Discrimination in Employment Act
1968	Consumer Credit Protection (Truth-in-Lending) Act
1969	National Environmental Policy Act
1970	Economic Stabilization Act
	Clean Air Act Amendments
	Occupational Safety and Health Act
1972	Consumer Product Safety Act
	Water Pollution Control Act
	Equal Employment Opportunity Act
1973	Emergency Petroleum Allocation Act
1974	Federal Energy Administration Act
	Employee Retirement Income Security Act
1975	Energy Policy and Conservation Act
1976	Energy Conservation and Production Act
	Toxic Substances Control Act

physical allocations, either across the board or specifically in energy markets. Taken together, these regulatory measures raised the governmental presence in the economy to a considerably higher level—one is tempted to compare them to the New Deal. Though the comparison would show the New Deal to be the more significant episode, the surge of new regulatory programs between 1964 and 1976 was unquestionably of great consequence.

What accounts for the interventionist outburst? Perhaps the most revealing answer requires that one consider each new regulatory program separately. A large literature taking such a piecemeal approach has come into being. From it one learns, not surprisingly, that the explanation of why regulatory program x was created generally differs somewhat from the explanation of why regulatory program y was created. No doubt the Consumer Product Safety Act and the Equal Employment Opportunity Act do have quite different backgrounds. One ought not to dismiss such distinctions or to depreciate the efforts of the scholars who have illuminated them. Still, from this literature one cannot learn, except by additional investigation and inference, why so many distinct regulatory programs appeared simultaneously during the late sixties and early seventies.

Some scholars have attempted to find a common denominator in the diverse regulatory measures. Stein, for example, argues that an important influence was exerted by an intellectual development that he dubs, after its leading popularizer, Galbraithianism: a loose collection of socioeconomic

analysis and evaluation hostile toward the free-market system and favorably inclined toward more sweeping governmental controls. "There was," says Stein, "no demand for a new and different economic system" in the Galbraithian view. Rather "[t]he ideological case for the old system, the free market, capitalist system, was punctured by the demonstration of exceptions to its general rules and claims, and this opened the way for specific policy interventions and measures of income redistribution without any visible limits." The arguments and attitudes of Galbraithianism gained strength from a spreading conviction that the American economy would continue to grow forever at a high rate, thereby insuring that new and costly governmental programs could easily be financed by drawing from the so-called growth dividend.[29] Henry Aaron's description of the climate of opinion in the sixties essentially agrees with Stein's. Aaron traces the roots of Galbraithianism back to previous crises: "The faith in government action, long embraced by reformers and spread to the mass of the population by depression and war, achieved political expression in the 1960s. This faith was applied to social and economic problems, the perceptions of which were determined by simplistic and naive popular attitudes and by crude analyses of social scientists."[30] As the observations of the conservative Stein and the liberal Aaron illustrate, scholars of diverse ideological persuasions agree that prevailing attitudes among both elites and masses in the mid-1960s favored increased governmental intervention in the market economy. Ideological postures engendered by past crises had come once again into political prominence.

Some scholars, especially those former radicals and liberals now known as neoconservatives, associate the ideological trends of the sixties and seventies with the growing ascendancy of an alleged New Class. According to Irving Kristol, who has popularized the notion, this class comprises scientists, lawyers and judges, city planners, social workers, professors, criminologists, public health doctors, reporters, editors, and commentators in the news media, and others. Many of these people work for the government or in the not-for-profit sector; they are "idealistic" and denigrate profit-seeking activities. Ostensibly reformist, they harbor, in Kristol's view, a "hidden agenda: to propel the nation from that modified version of capitalism we call 'the welfare state' toward an economic system so stringently regulated in detail as to fulfill many of the traditional anti-capitalist aspirations of the Left."[31] One may question whether the individuals implicated by Kristol constitute a class in the sense that sociological theorists employ the concept of class, but no one can deny that a multitude of left-leaning intellectuals and quasi intellectuals gave prominent leadership and support to the regulatory outburst of 1964–1976.

Questions remain about the specific timing of the outburst and about how the New Class and others who shared its values and aspirations succeeded in

transforming their ideals into concrete regulatory measures. To answer the questions, one must consider some more prosaic political developments.

Presidential and congressional changes in the mid-sixties loom large in this story. The accession of Lyndon B. Johnson from the vice presidency and his subsequent landslide election placed in the highest office a man driven by an ambition to leave an indelible mark on history, to carry forward the political programs of his hero and mentor, Franklin D. Roosevelt. Formerly a powerful senator, LBJ knew well how to work with Congress, and he had compliant members of Congress to work with. Not only did the Democrats have enormous majorities in both houses of Congress—an advantage they would continue to enjoy until the 1980s—but the election of 1964 brought into office on Johnson's coattails an extraordinarily liberal group of legislators. No longer did the traditionalist "conservative" Democrats, mainly Southerners, dominate the lawmaking branch of government. According to Aaron, "No administration since Franklin Roosevelt's first had operated subject to fewer political constraints than President Johnson's."[32] Under such favorable political conditions the proponents of collectivist programs had enormous room to maneuver.

But what determined the specific forms the regulatory programs took? To which constituencies did the activist Presidents (Johnson *and* Nixon) and the left-leaning Congress cater most during the decade after 1963?

In considering these questions one must recognize the unprecedented proliferation of animals in the American political jungle during the 1960s. None of the old factions disappeared—big business, labor unions, middle-class professional and trade groups, farmers, and many other longstanding interest groups remained well entrenched—but a plethora of new groups emerged. The civil-rights movement first spawned a number of politically organized and active groups seeking to promote better economic and social conditions for blacks, then spun off "by way of osmosis and highly contagious analogical thinking" various groups to promote the political aims of other "oppressed minorities": women, Indians, Chicanos, white ethnic groups, students, homosexuals, the handicapped, the elderly, and many others, all previously not directly represented as such to an important extent in American politics. The newly potent groups demanded that the federal government solve diverse racial, urban, employment, and consumer problems, real and imagined. Similarly the antiwar movement spilled over into "a spreading interest in an assortment of 'general publics' and 'public goods' supposedly in need of the protection that organized political action brings." Agitation in support of environmentalist, consumerist, and zero-risk regulations reached unprecedented levels. By the early seventies "the universe of political organizations was handsomely populated by groups widely discounted before as unorganizable."[33]

That all these groups organized and began to flex their political muscles precisely when they did was no accident: once again social crisis had substantially enlarged the domain of political feasibility. The turmoil of the sixties, with its acrimonious divisions on a scale not witnessed in the United States since the Civil War era, created two critical preconditions for a burst of regulatory legislation. First, it got the attention of many people who in normal times would have remained uninterested in politics. The promise—or the threat—of massive changes in race relations awakened millions of politically dormant citizens. Troubling questions about the aims, methods, risks, and costs of American military actions in Vietnam gained the attention of even more people; virtually no one could ignore or stand aloof from a conflict that claimed the lives of fifty-eight thousand U.S. servicemen, 86 percent of them white men, in a distant land of doubtful strategic importance. Second, the socially divisive crises of race relations and the war, widely felt as overriding moral issues, provoked massive participation in protests, demonstrations, and more conventional political activities: that is, ideologically motivated actions swept aside the free-rider problem.[34]

Once masses of people had been politically motivated, activated, and organized, their solidarity greatly heightened in many instances by hostile encounters with ideological opponents or police, they readily extended their interests and energies in directions that seemed to them parallel to their original aims and actions. Many—especially among the students—came to believe that a ruling politico-corporate establishment, which they mistakenly identified with capitalism or the free-market system, was responsible for the unjust racial relations and the savage, pointless war. "War-related dissent had been the catalyst for unusually acerbic political divisions and had created a large cadre of radicalized political activists disposed to continue their struggle against other aspects of the system once the war was over."[35]

Galbraithianism and other varieties of critical socioeconomic analysis helped to justify the displacement of antiwar and pro-civil-rights enthusiasms onto a diversity of antimarket causes. Sensing an enlarged opportunity, members of the New Class strove to realize their cherished regulatory aspirations, drawing strength from the errantly anticapitalist climate of opinion and, not wholly by accident, doing well while doing good. After Johnson was driven from office, the Nixon administration, only mildly reactionary, dared not resist the leftists too much, and the regulatory mania born in the mid-sixties carried into the seventies before a conservative reaction—and a severe, inflationary recession—finally began to restrain it.[36]

While under modern ideological conditions almost any kind of crisis promotes expanded governmental activity, some do so more than others. Lawrence Brown has advanced the provocative idea of a "good" crisis. In such an event "simple causes seem to be evident for all to see, . . . simplistic

solutions lie near at hand and command consensus, and . . . the upper and middle classes of the population can identify with efforts to solve someone else's problems." In Brown's view the urban crisis of the sixties exemplifies a good crisis: its causes were taken to be poverty and racism; a "war" on poverty and racial discrimination would eliminate them once and for all; both the legislators and the poverty fighters liked this kind of war.[37] (By such criteria World War II was an even "better" crisis.) Whether one views the twin crises of the mid-sixties as especially "good" or not, they were clearly fundamental in the creation of sociopolitical conditions favorable to the regulatory outburst that began then.

Like FDR, Richard Nixon had a crisis mentality. In 1962, unhappily out of public office, he wrote an autobiographical account entitled *Six Crises*. But whereas Roosevelt's crises were real, Nixon's were more the product of his personal sense of siege. As President, Nixon twice declared a state of national emergency, once on March 23, 1970, in response to a strike by postal workers, and again on August 15, 1971, when balance-of-payments problems led him to impose a 10 percent surcharge on dutiable imports.[38] Had the declarations done nothing more than facilitate the President's handling of the problem at hand, they would not have been particularly noteworthy. At that time, however, Nixon's declarations—along with FDR's of 1933 and Truman's of 1950, which remained in effect—gave force to 470 provisions of federal law delegating extraordinary powers to the President.

As a congressional committee report described them, the emergency powers conferred "enough authority to rule the country without reference to normal constitutional processes."

> Under the powers delegated by these statutes, the President may: seize property; organize and control the means of production; seize commodities; assign military forces abroad; institute martial law; seize and control all transportation and communication; regulate the operation of private enterprise; restrict travel; and, in a plethora of particular ways, control the lives of all American citizens.[39]

Not until the passage of the National Emergencies Act of 1976 did Congress provide for the termination of existing declared national emergencies and for the systematic oversight and termination of future declared national emergencies. Still, the law stopped short of withdrawing past statutory delegations of emergency power to the President. In particular the emergency presidential authority to control international financial and property transactions, first authorized by the Trading with the Enemy Act of 1917, was kept in force. In 1977 Congress further clarified that authority, by no means eliminating it, in the International Emergency Economic Powers Act.[40]

Nixon, like most incumbent politicians, gladly took advantage of crises to augment his power, but he did not just sit waiting for an emergency to come

along. For him the risk that he might not be reelected was crisis enough. According to his economic adviser Stein, he "tended to worry exceedingly about his reelection prospects and so to feel impelled to extreme measures to assure his reelection." Years before the election of 1972 Nixon and his aides began to scheme how they could manipulate the economy to maximize the likelihood of his reelection. The economic policies they implemented epitomize those that generate so-called political business cycles. (Whether such cycles have actually occurred is a separate, more complicated, and controversial question.)[41]

Nothing illustrates Nixon's political opportunism better than his imposition of mandatory wage-price controls in August 1971. The President, who had served as a low-level functionary in the OPA during World War II, had often expressed an aversion to price controls. Such controls, he declared during the campaign of 1968, "can never be administered equitably and are not compatible with a free economy." Yet, as James Reichley has observed, he was "not prepared to take extreme political risks for the sake of economic dogmas." Having convinced himself that his defeat in 1960 had resulted from the Eisenhower administration's failure to generate favorable macroeconomic conditions on the eve of the election, Nixon was determined not to suffer again from the same kind of mistake. His latent fears were sharply aroused in 1970–1971, when the new administration's restrictive fiscal and monetary policies had a more immediate effect in raising unemployment than in reducing inflation.

Impatient that the government's macroeconomic policies seemed to be working so slowly, many politically important people began to call for direct price controls: labor union leaders, big businessmen, members of Congress, potential presidential candidates in the next election, high-ranking economists in the Treasury Department, even Arthur Burns, now heading the Fed—all prodded the President to impose an "incomes policy" because, as Burns put it, "The rules of economics are not working in quite the way they used to." Congress, as if daring Nixon to do what he insisted he would never do, passed the Economic Stabilization Act, authorizing the President to control all prices, wages, and rents. Nixon signed the bill—which was attached as a rider to an act extending the Defense Production Act of 1950—with apparent reluctance on August 17, 1970.

Late in 1970 the appointment of the flamboyant John Connally as Secretary of the Treasury and his subsequent designation as the administration's chief economic spokesman tipped the balance toward controls. Connally had few economic scruples; he specialized in dramatic political gestures, favoring, in Nixon's football metaphor, the "big play." He supported the imposition of controls because he thought it would appeal to the public as a sweeping, take-charge action by the President.[42]

Nixon liked that aspect of the controls. As he later wrote in his memoirs, imposition of the controls "was politically necessary and immediately popular in the short run." Indeed it was. Not only did the stock markets soar and the opinion polls indicate a huge preponderance of approval of the President's action—a response that showed in Stein's view "how shallow was the general support in principle for the basic characteristics of a free market economy"—but Nixon was overwhelmingly reelected a year later, while rigorous controls remained in force.[43]

Economists, with notable exceptions, can be relied upon to testify that price controls "don't work," and in the sense that economists take to be germane—actually reducing inflation, not just temporarily suppressing its manifestations—their conclusion is valid. But in the perspective of political economy it misses the point. Price controls do work: they work to gain short-run political support for the politicians who impose them. The public never seems to learn that it is being sold a faulty political product. As Stein remarks, even after all the economic disruptions, artificial scarcities, and inequities of Nixon's price-control program, which finally ended on April 30, 1974, "the experience did not leave the country with a strong commitment to the free market, monetarist way of restraining inflation. The attraction of the direct approach remained." Just four years later the Carter administration yielded to political temptation and imposed another incomes policy, albeit a half-hearted one entirely reliant on indirect sanctions.[44]

The most important legacy of Nixon's wage-price controls was the government's energy price controls and allocations that persisted long after the comprehensive price controls had expired. When the energy crisis struck, the administration was looking forward to disengagement from its no-longer-useful incomes policy. But given the lingering presence of the price controls, the Arab oil embargo and the OPEC price hikes of late 1973 and early 1974 quickly led in many areas to shortages that were rationed mainly by the customers' waiting in the infamous gas lines. The inconvenience and uncertainty were more than the American public could bear. There immediately arose, in William Simon's words, "collective hysteria. . . . The political heat was on both Congress and the executive to solve the problem overnight."[45]

To deal with the crisis the President by executive order created the Federal Energy Office. On December 4, 1973, he named Simon, then Deputy Secretary of the Treasury, to head the FEO, which by statute later became the Federal Energy Administration and later still the Department of Energy. Overnight, Simon became the "energy czar," one of the most newsworthy people in America. Nixon authorized him "to decide everything and to decide it rapidly." The President equated the energy crisis to a wartime situation and likened Simon's job to that of Albert Speer, Hitler's

Minister of Arms and Munitions during World War II. Finding the government's energy allocation procedures tangled and ineffective, Simon and his assistants worked frantically for months to channel existing supplies to the areas with the most desperate shortages. Although eventually some improvements were made and the gas lines shortened and began to disappear by the spring of 1974, the whole arrangement remained fundamentally defective. Simon concluded: "There is nothing like becoming an economic planner oneself to learn what is desperately, stupidly wrong with such a system."[46] It got no better as Congress passed ever more complicated energy legislation in the mid-1970s (see Table 10.1). Inevitably another crisis struck; early in 1979 the gas lines reappeared. The Energy Department's erratic efforts to fix the problem just made it worse.[47] Only with Ronald Reagan's election and the scrapping of all oil price controls was the mess permitted to clean itself up through market processes. Even then, however, a complex system of price controls for natural gas lingered into the mid-1980s, a political dragon too fearful for even Sir Ronald to slay.

Notwithstanding the gas lines of 1979, the Carter years were relatively calm: no great wars, no burning cities, no masses of angry protesters in the streets. The economy grew apace, at least until 1980. The most serious economic problem of the Carter administration was one largely of its own making, the accelerating inflation that eventually reached double-digit rates not seen in the United States since the price controls lapsed after World War II. The administration tried to deflect responsibility and divert attention from the problem by embracing a weak incomes policy late in 1978, the wage-price guidelines that some corporations considered mandatory de facto even though nonexistent de jure. More significantly Carter appointed Paul Volcker to head the Fed in 1979, and thereafter a more restrictive if more erratic monetary policy was conducted. All things considered, the Reagan administration inherited an economy that was, despite the troublesome inflation and an assortment of other problems, in only moderately bad shape.

David Stockman, a congressman later to serve as Reagan's budget director, took a more excited view of the economy. After the 1980 election Stockman, in collaboration with his congressional colleague Jack Kemp, wrote a memorandum entitled "Avoiding a GOP Economic Dunkirk," which he presented to the President-elect and his chief advisers (and leaked to the press and other strategic parties).[48] After cataloging the "multiple challenges and threats lying in ambush," including an impending "credit crunch," a "double-dip recession," and a "federal budget and credit hemorrhage," Stockman proposed that the new administration act quickly, decisively, and dramatically to allay the impending risks and get the economy back on a prosperous track. His specific policy objectives included cuts in federal spending and taxing, further deregulation, and support for a stead-

fastly disinflationary monetary policy—nothing revolutionary or even especially radical, as every element had a clear precedent in the later phase of the Carter administration.

The remarkable aspect of the plan was how Stockman proposed that the new administration go about seeking the designated objectives. In a section of his memorandum entitled "Emergency Economic Stabilization and Recovery Program," he proposed that the new President immediately declare a national economic emergency and inform Congress and the nation that economic conditions were much worse than generally appreciated. "He should request that Congress organize quickly and clear the decks for *exclusive action* during the next hundred days on an *Emergency Economic Stabilization and Recovery Program* he would soon announce. The administration should spend the next two to three weeks in fevered consultation with Hill congressional leaders and interested private parties on the details of the package."[49] Declaration of national emergency, fevered consultation, a hundred days of legislation! Half a century after Roosevelt's New Deal the wheel had come full circle: now the conservatives would take the country by storm.

Calmer spirits prevailed. After all, it was not 1933, and there was little chance that even the Great Communicator could persuade people that it was. Though the substance of Stockman's proposal served as an influential blueprint for the administration's policy initiatives in 1981, the President decided against a declaration of national emergency. The Reaganauts did succeed in cutting income tax rates (but bracket creep and increased Social Security taxes offset much of the effect of the cuts); they carried out some additional deregulation in the communications, transportation, and financial services industries; and they supported with only occasional carping the Fed's more restrictive monetary policy, which diminished the rate of inflation much faster than anyone had thought possible, though it triggered a severe recession along the way. But much of Stockman's grandiose scheme, especially the broad cuts in federal spending and the extensive deregulation, never achieved enactment, and before long the young budget director grew sick at heart. "I have a new theory," he confided to a journalist: "There are no *real* conservatives in Congress." Indeed, after the first few hectic months, when the administration wielded the preponderance of power, politics as usual began to reassert itself. Offended constituencies rallied their troops, who dug in for a long battle or counterattacked. As always in politics there were winners and losers, but "what had changed, fundamentally, was the list of winning clients, not the nature of the game."[50]

So the heralded Reagan Revolution fizzled.[51] In part it failed because the administration never had a strong commitment to fundamental change in the first place. Witness the unyielding support for the massive transfer payments, benefitting mainly the middle class, under the Social Security system; the

continued subsidies to, bailouts of, and protection from competition for farmers, timber companies, auto, steel, textile, footwear, and apparel producers, shipping companies, commercial banks, and countless others; the pervasive interference in international trade through quotas and so-called orderly marketing agreements negotiated with foreign governments. Virtually the entire hodgepodge, described by Stockman as a "coast-to-coast patchwork of dependencies, shelters, protections, and redistributions that the nation's politicians had brokered over the decades," remained intact. Political expediency reigned as supreme as ever. But even had the Reagan partisans genuinely desired to return to a free-market regime, their methods did not augur well for such a reaction. They focused not on institutional change but on altering the budget numbers, on getting income-tax rates down—particularly at the top bracket—and, with much less enthusiasm, on reducing governmental spending. Number juggling is not the stuff of revolution. Ultimately, as Stein has observed, the likelihood of a conservative revolution was slight because "even conservative governments when in office do not want to limit their own powers."[52] Conservative politicians, in short, are still politicians. And in a political system devoid of basic constitutional and ideological restraints on the scope of governmental authority, any species of politician may run amok.[53]

CONCLUSIONS

The mixed economy that has prevailed in the United States since World War II, a uniquely American form of participatory fascism, has lent itself to a substantial expansion of the scope of governmental authority over economic decision-making. Given capitalist color by the form of private property rights, the system has denied the substance of any such rights whenever governmental authorities have found it expedient to do so. No individual economic right whatever, not even the right to life, has been immune from official derogation or disallowance; besides interfering in countless economic transactions, the government has sent tens of thousands of men to their deaths bound in involuntary servitude as conscripts in the military adventures embarked upon by ruling elites. The potential for government to set aside private rights has now been plenary for over forty years, even if governments have yet to exercise the potential fully. Real reaction never materialized. Eisenhower's business-dominated administration largely accommodated itself to the legacies of the New Deal and the garrison state. Though the greatest postwar wave of new governmental powers welled forth in the 1960s under the collectivist auspices of Johnson's Great Society, the Nixon government—those "conservative men with liberal ideas"—hardly stemmed the tide. The

crises, real and spurious, of the turbulent decade after 1964 fomented an unprecedented variety of influential interest groups, many of which pressed successfully for novel governmental measures on their behalf. Reagan's "conservative revolution" barely dented the enormous apparatus of governmental control. (Anyone who doubts this conclusion should look again at the appendix to Chapter 2.)

Since 1945, liberals and conservatives, Democrats and Republicans have come into and out of power as the oscillations of a pendulum, but regardless of the political swings the fixed point has remained a fundamental abrogation of private economic rights. Constantly vulnerable to unsettling governmental intervention—whether wage-price controls, energy controls, labor-market controls, environmental controls, international trade controls, or any number of other intrusions into once-private economic affairs—the postwar economy has staggered forward. All shades of politicians have preferred the powers available to them in a mixed economy to the conceivable alternatives. Without the powerful ideological and constitutional restraints that operated for over a century after the birth of the United States—restraints destroyed during the national emergencies of 1916–1945—modern governmental authorities may drink deeply and often from the heady wellsprings of political power and social control.