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AN ANALYSIS OF FOUR CASES.

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THE PRESIDENT'S ECONOMIC RESPONSIBILITIES:

AN ANALYSIS OF FOUR CASES

DISSERTATION

Presented in Partial Fulfillment of the Requirements for
the Degree Doctor of Philosophy in the Graduate
School of The Ohio State University

By

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*

The Ohio State University
1971

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# TABLE OF CONTENTS

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>ACKNOWLEDGEMENTS</td>
<td>ii</td>
</tr>
<tr>
<td>VITA</td>
<td>iii</td>
</tr>
<tr>
<td>LIST OF TABLES</td>
<td>vi</td>
</tr>
</tbody>
</table>

## Chapter

### I. INTRODUCTION ................................ 1

- The Literature on Policy-Making ........... 3
- A Policy Process Framework ............... 27
- The Policy-Process Framework and Theories of Policy-Making ........ 35
- The Selection of Cases .................. 38

### II. PRESIDENTIAL BEHAVIOR DURING THE 1954 RECESSION ................................ 40

- The Political and Economic Context ....... 42
- Initiation ................................ 61
- Definition of the Issue ................. 65
- Formulation ............................. 82
- Communications ......................... 104
- Mobilization ........................... 107
- Modification ......................... 112
- Representation ......................... 117
- Prescription ........................... 121
- Conclusions ......................... 124

### III. PRESIDENTIAL BEHAVIOR DURING THE 1958 RECESSION ................................ 128

- Pre-Recession Economic Policy ........... 129
- Initiation ................................ 135
- Definition of the Issue ................ 137
- Formulation ............................. 152
- Communications ......................... 172
- Mobilization ........................... 175
- Modification ......................... 191
- Representation ......................... 201
- Prescription ........................... 205
- Veto ................................ 208
- Conclusions ............................. 212
<table>
<thead>
<tr>
<th>Chapter</th>
<th>The President and the 1964 Tax Cut</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>IV.</td>
<td>The Political and Economic Context</td>
<td>220</td>
</tr>
<tr>
<td></td>
<td>Initiation</td>
<td>238</td>
</tr>
<tr>
<td></td>
<td>Definition of the Issue</td>
<td>240</td>
</tr>
<tr>
<td></td>
<td>Formulation</td>
<td>284</td>
</tr>
<tr>
<td></td>
<td>Communication</td>
<td>294</td>
</tr>
<tr>
<td></td>
<td>Mobilization</td>
<td>298</td>
</tr>
<tr>
<td></td>
<td>Modification</td>
<td>318</td>
</tr>
<tr>
<td></td>
<td>Representation</td>
<td>327</td>
</tr>
<tr>
<td></td>
<td>Prescription</td>
<td>332</td>
</tr>
<tr>
<td></td>
<td>Conclusions</td>
<td>333</td>
</tr>
<tr>
<td>V.</td>
<td>The President and the Poverty Program</td>
<td>341</td>
</tr>
<tr>
<td></td>
<td>Initiation</td>
<td>342</td>
</tr>
<tr>
<td></td>
<td>Definition of the Issue</td>
<td>347</td>
</tr>
<tr>
<td></td>
<td>Formulation</td>
<td>367</td>
</tr>
<tr>
<td></td>
<td>Communications</td>
<td>384</td>
</tr>
<tr>
<td></td>
<td>Mobilization</td>
<td>386</td>
</tr>
<tr>
<td></td>
<td>Modification</td>
<td>394</td>
</tr>
<tr>
<td></td>
<td>Representation</td>
<td>398</td>
</tr>
<tr>
<td></td>
<td>Prescription</td>
<td>399</td>
</tr>
<tr>
<td></td>
<td>Conclusions</td>
<td>400</td>
</tr>
<tr>
<td>VI.</td>
<td>Conclusions</td>
<td>406</td>
</tr>
<tr>
<td></td>
<td>The Performance of the Policy Process</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Functions</td>
<td>406</td>
</tr>
<tr>
<td></td>
<td>Participants and Functions: Patterns in the Performance of Functions</td>
<td>425</td>
</tr>
<tr>
<td></td>
<td>Findings on Propositions</td>
<td>436</td>
</tr>
<tr>
<td></td>
<td>Utility of Framework for Future Research</td>
<td>446</td>
</tr>
<tr>
<td></td>
<td>The President's Role in Economic Policy-Making</td>
<td>452</td>
</tr>
<tr>
<td></td>
<td>APPENDIX</td>
<td>454</td>
</tr>
<tr>
<td></td>
<td>BIBLIOGRAPHY</td>
<td>457</td>
</tr>
</tbody>
</table>
LIST OF TABLES

Table                                                                                   Page
1. Functions Performed by Participants                                                   407
   During the 1954 Recession
2. Functions Performed by Participants                                                   410
   During the 1958 Recession
3. Functions Performed by Participants in the Formulation and Adoption of the           415
   1964 Tax Reduction
4. Functions Performed by Participants in the Formulation and Adoption of the Poverty Act 416
CHAPTER I
INTRODUCTION

Since the Depression of the 1930's, a change has taken place in the public's expectations regarding the proper role of government vis-à-vis the economy: the national government and particularly the President are now held responsible for the state of the economy. In one sense, the Employment Act of 1946 may be viewed as a formal symbol of legislative acceptance of the government's responsibility for the economy. The 1946 Act singled out the President for special responsibility and established new governmental agencies and procedures, such as the Council of Economic Advisers and the President's Economic Report, in an effort to achieve the goals of the Act, "maximum employment, production and purchasing power."

Students of the Presidency have recognized this increased Presidential concern for the economy, but few have treated its development to any great extent. One who has is Edward Flash, whose book, Economic Advice and Presidential Leadership, discusses the changing relationship between the Council of Economic Advisers and the President.

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primarily by focusing on three cases involving the Truman, Eisenhower, and Kennedy Administrations. Other authors have considered the broader topic of the increase in governmental economic responsibility. But, with the exception of Flash, they neither concentrate on the role of the President nor study Presidential behavior in economic policy-making within an explicit theoretical framework.

The literature on policy-making is quite extensive, but relatively nonspecific about the President's role in economic policy-making. In order to study the President's increased economic responsibilities, I will employ an analytical framework of the policy process that incorporates some of the recent ideas contained in policy-making literature. The application of this framework to a series of cases will produce generalizations about Presidential behavior in the making of economic policy. The following review of the policy-making literature is confined to that segment of the literature that builds on pluralism and

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group theory. It is intended to make clear some of the criticisms of the existing literature, to indicate how the analytical framework is related to the literature as well as to generate propositions that may tentatively be applied to participants' behavior in economic policy-making.

The Literature on Policy-Making

Group theory and pluralism

David Truman and Robert Dahl suggest that policy-making may be explained in terms of group theory and pluralism, respectively. In *The Governmental Process*, Truman argues that the study of politics is the study of groups.¹ Interest groups,² mutual assistance coalitions and compromise among interests are important features of Truman's account of policy-making. Interest groups exert power by gaining access to one of the many points of decision in government. They have traditionally focused on the legislature because it is the primary means for changing the law.³ Legislative policy-making typically involves the

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²Truman defines an interest group as a group that on the basis of shared attitudes makes claims on other groups in society. The interests are the shared attitudes. *Ibid.*, pp. 33-34.

³An important technique of legislative access is the formation of two kinds of mutual assistance coalitions--alliances and logrolling. An alliance involves several groups following a common strategy in pursuit of a policy that is substantially related to the interest of each
adjustment and compromise of interests. Although compromise may take place outside the legislature, the more controversial pieces of legislation will require compromise in the legislature itself.

Truman argues that the assertion of interest group demands on government has resulted in an expansion of administrative activities. And as the role of the executive in legislation and in discretionary administration increases, interest group activity vis-à-vis the executive also increases.

In his account of political behavior in the executive branch, Truman singles out the President for a special leadership role in adjusting conflicting interests. First, the President acts as an adjuster of competing interests during the nomination and electoral process. Once in office, the powers of the office as well as the demands made on the President also require him to take the lead in adjusting interests, not only the organized and special interests but also widely held interests and "rules-of-the-game." Access to the President is partially explained in terms of those groups that supported him for nomination and

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6Ibid., p. 393. 7Ibid., pp. 396-397.
election. But Truman also stresses the influence on an incumbent of the Presidential office which includes an expectation of Presidential impartiality and this functions to counter, to some extent, the privileged access of certain groups. **Truman's theory suggests that the President's role in policy-making is primarily one of adjusting various competing interests.

Robert Dahl's theory of pluralism bears many similarities to Truman's group theory, but is, itself, an important contribution to the literature on policy-making. In Dahl's view, a pluralist system is marked by the following characteristics: a differentiation of society into political and apolitical strata; cleavages within the political stratum that sometimes require an appeal to the public; a democratic creed and set of political axioms that reinforce this appeal; noncumulative or dispersed inequalities in the distribution of political resources; fragmentation of political power, generally along issue areas and policy-making by compromise among relevant interests, groups and individuals.

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8Ibid., pp. 399-400.

In *Who Governs?*, Dahl suggests several points relevant to the analytical framework to be employed in this dissertation. First, he suggests the utility of an issue area approach, i.e., that participants vary with the type of issue. Elected political leaders were the only participants to be influential in several issue-areas. Second, he suggests that the most influential participants are those who successfully initiated or vetoed policy proposals. And thirdly, Dahl suggests that policy-making within an issue area is likely to involve the consideration, negotiation, and compromise of various relevant interests. Professional politicians skilled in negotiation and the effective use of political resources are key elements in building coalitions and working out compromises.

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11 Dahl, *Who Governs?*, pp. 332-333. See also *Modern Political Analysis*, pp. 52-55 and "A Critique of the Ruling Elite Model," in which Dahl presents the pluralist method of determining influence in order to demonstrate the shortcomings of the elitist model. He also discusses the distinction between direct influence (exercised by those who participate directly in governmental decisions) and indirect influence (which can be exercised by the mass of the population through elections), *Who Governs?*, pp. 101-102, and between actual and potential power warning not to mistake the resources of power for the exercise of power. See *Who Governs?*, p. 272, and *Modern Political Analysis*, pp. 47-49.

Several authors have suggested alternative propositions to group theory and pluralism that are also relevant to this study. One suggestion is that an emphasis on a unidirectional flow of influence from group to public official is misleading. Public officials, including the President, may motivate interest group leaders and not vice versa.\(^\text{13}\) A second criticism is that pluralism describes only the political process associated with the making of one type of policy.\(^\text{14}\) Pluralism ignores the phenomena Lowi points to in his discussion of "interest-group liberalism," i.e., that policy can be made without conflict and compromise, but by delegating policy-making and administration to the relevant affected groups.\(^\text{15}\)  

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\(^\text{15}\)Theodore J. Lowi, The End of Liberalism (New York: W. W. Norton and Company, Inc., 1969). For Lowi's discussion of pluralism and liberalism, see Chapters 2, 3, and 10. Illustrations of how policy is made under the formula of interest-group liberalism include Chapters 4 (Agriculture, Commerce, and Labor) and 8 (Welfare and the War on Poverty). In some ways, Lowi's explanation of interest-group liberalism bears resemblance to some of Dahl's ideas, particularly on issue-areas and on mutual noninterference in petty sovereignties. But in contrast to Dahl, Lowi (1) argues that interest-group liberalism is a well established pattern, and (2) provides an account of the development of such a public philosophy, and (3) provides a more detailed account of the intellectual and philosophical as well as the political foundations of such a pattern.
tendency of pluralists to ignore the economic and political structures within which the political process occurs results in the neglect of the possibility of conflict resolution by agreement on policy, hierarchy, or informal means. Finally, the pluralist definition of influence may be inadequate because influence might be exercised by preventing certain issues from arising, perhaps through influencing values and political rituals.

Lindblom's theory of the policy process

Charles Lindblom compares two methods of policy-making—the traditional, rational comprehensive or conventional model of choice and the method of incrementalism, successive limited comparisons or mutual adjustment—in an effort to show that the incremental method is both more desirable than the first as well as an accurate description of the policy-making process. The rational comprehensive method involves the steps of clarifying goals, considering


17Peter Bachrach and Morton S. Baratz, "The Two Faces of Power," American Political Science Review, LVI (December, 1962), 949. C. Wright Mills, The Power Elite (New York: Oxford University Press, 1959), argues that the really important decisions are made by the power elite and that the decisions pluralists study are really those concerned with the "middle levels of power." For an argument that the theories of Mills and Dahl cannot be empirically established and are, therefore, ideologies rather than theories, see William E. Connolly, Political Science and Ideology (New York: Atherton Press, 1967).
means of achieving the goals and the selection of the means most appropriate to the attainment of the goals. It entails comprehensive analysis and a heavy reliance on theory. Lindblom maintains the impossibility of achieving this degree of comprehensive analysis: goals cannot be ranked; agreement on goals cannot be achieved; and investigation of the consequences of all possible policies cannot be done.

In contrast, in the incremental method, the selection of values and the analysis of means (policies) are closely intertwined. Participants can agree that a policy is good (i.e., they can agree on a policy) without agreeing what it is good for (i.e., without agreeing on the objective). This method drastically limits analysis by restricting policy comparisons to those policies that differ in relatively small degrees from existing policies, thereby limiting policy choices to those that are politically feasible, and by ignoring important possible consequences of possible policies as well as the values attached


19 Lindblom argues that means-ends analysis is of limited use because people do not agree on values, values are not reconcilable and values are not stable at the margin. Under Lindblom's method, a public official chooses among values and policies at the same time. This means that he can concentrate on marginal or incremental values, i.e., he is concerned only with the marginal values by which alternative policies differ.
to those neglected consequences. But, since each interest has the opportunity to organize and different groups bargain on incremental policies, this process does bring about a kind of comprehensiveness. Policy is made and remade. Incremental change avoids lasting mistakes. However, Lindblom admits that all relevant values may not be considered and that policy-makers may overlook excellent policies that are not suggested by the chain of policy steps leading up to the present.

Several features of Lindblom's conception of the policy process may be useful in this study of the President's economic behavior. Lindblom suggests that it is more useful to focus on policy and policy-making than on decisions and decision-making.

Governmental acts or policies are not simply decisions, nor do they stand in any one-to-one relation with decisions. An act or a policy is sometimes a decision or, to state it better, directly the product of a decision. But it is sometimes a resultant, in ways to be explored in this study, of conflicting or at least diverse decisions. The focus of inquiry must often be not the decisions, but their complex consequences for each other. Second, he supports the notion of typing policies and processes by advancing a four category typology of decisions

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20Lindblom, op. cit., pp. 84-85.

and processes typically associated with them that is based on a low-high understanding axis and an incremental-large change axis. He placed in the third quadrant (incremental change, low understanding) decisions "typical of ordinary political life" made according to the process of incremental politics. A category such as this raises the question of this typology's usefulness, since it would appear that this is a virtually all-inclusive category.

Lindblom specifies several types of partisan mutual adjustment that policy-makers might employ. He divides these methods into two large categories--adaptive adjustments which include those methods where a decision-maker simply adapts to decisions around him without first seeking a response from other decision-makers, and manipulated adjustments, where a decision-maker seeks a desired response from another. Lindblom lists the following methods of adaptive adjustments: parametric; deferential; calculated. Manipulated adjustments include: negotiations; bargaining; partisan discussion; compensation; reciprocity; authoritative prescription; unconditional manipulation;

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23Lindblom explains adaptive adjustments as follows: parametric, A adapts to B's decisions without regard to consequences for B; deferential, A seeks to avoid adverse consequences for B; and calculated, A does not entirely avoid adverse consequences for B, but still adjusts his decision out of consideration for adverse effects for B. Lindblom, The Intelligence of Democracy, p. 33.
prior decision; and indirect manipulation.\textsuperscript{24}

One type of mutual adjustment that may be particularly applicable to this study is partisan analysis, which Lindblom defines as "policy analysis by one policy-maker to find a way in which a policy he desires can serve the values of another policy-maker to whom the persuasion is directed."\textsuperscript{25} Partisan analysis is particularly effective because of policy-makers' uncertainty and their consequent need for information. Economic policy is one area in which participants need technical information in order

\textsuperscript{24}Lindblom provides the following explanation of manipulated adjustments: negotiation, A and B, in a variety of ways, induce responses from each other; bargaining (a form of negotiation), A and B induce responses from each other by conditional threats and promises; partisan discussion (another form of negotiation), A and B induce responses from each other by effecting a reappraisal of each other's assessment of the objective consequences of various courses of action; compensation, A induces a response from B by a conditional promise of benefit; bargained compensation (a form of bargaining), A and B make conditional promises to one another; reciprocity, A unilaterally, or A and B symmetrically, in negotiation or otherwise, induce a response by calling in an existing obligation or acknowledging a new one; authoritative prescription, A prescribes a response to B, who concedes A's authority; unconditional manipulation, A induces a response from B by unconditionally altering the advantages or disadvantages to B of various responses; prior decision, A takes a prior decision to induce B to respond rather than forego the advantages of coordination with A; indirect manipulation, A uses any of the above forms of manipulation to induce a third decision-maker to induce B to make the desired response. \textit{Ibid.}, pp. 33-34.

to reduce their uncertainty and make policy decisions. Partisan analysis threatens no one's values, since it is directed toward finding agreement on policies and not on ultimate objectives. Emphasizing the discretion of legislators and the help that interest group leaders can give them in making decisions, Lindblom contends that partisan analysis is the major method of influence of interest group leaders.

Lindblom also suggests that ideology, which he defines as "any even loosely organized set of generalizations or principles about social organization--or more specifically, about politico-economic organization," is an important aid to analysis in the policy process because it removes some beliefs from criticism or at least provides arguments on their behalf. He also suggests that participants perform the following "specialized tasks" in the policy process: (1) initiating; (2) vetoing; (3) coordinating; (4) planning; (5) establishing general constraints on the alternatives to be considered; (6) widening the range of choice; (7) stimulating new policy ambitions; (8) adjudicating conflicting intentions; and (9) controlling through the purse strings. In his view, the policy process "manufactures both policies and

26 Ibid. 27 Ibid., pp. 65-66. 28 Ibid., p. 23. 29 Ibid., pp. 30-31.
preferences." What is feasible and what is desired are constantly reconsidered in light of one another. As a diagrammatic representation of the policy-making process in America, Lindblom offers a policy-making ladder which ranks groups of individuals from the President on the top to the apathetic non-voter on the bottom, according to their influence in policy-making.\textsuperscript{31} He assigns the President a large role in the policy-making system, due to his legal and Constitutional authority, his extra-legal authority (granted upon the initiative of others or as a result of his use of legal authority to induce the granting of such authority), and Congress' parochial concerns.\textsuperscript{32} Lindblom also contends that an important role in policy-making exists for the reconstructive leader, by which he means an individual who can alter the preferences of others over time so that a policy he favors, which formerly fell outside the range of alternatives permitted by the existing structure of preferences, would now fall within the range

\textsuperscript{30}\textit{Ibid.}, p. 102.

\textsuperscript{31}Lindblom's policy-making ladder has the following eight levels: President; Congressional and other Top Party Leaders, Congressional Committee Chairmen, Top Administrators, and Supreme Court Justices; Other Legislative Leaders, Policy-Making Judges, and High-Level Administrators; Ordinary Legislators and Some Administrators; Lower-Level Party Leaders, Interest-Group Leaders, and Major Public-Opinion Leaders; Politically Active Citizens; Ordinary Voters; Non-Voters. \textit{Ibid.}, p. 103.

\textsuperscript{32}\textit{Ibid.}, p. 86.
of the permissible. 33

In light of the criticisms of pluralism and of the similarities between Lindblom and the pluralists, Lindblom's theory can be criticized on the grounds that it describes only one type of process. For example, Lowi's concept of interest-group liberalism suggests an extremely restricted number of participants in a given policy area. This is contrary to Lindblom's view that all interests and values can be expressed in the policy-making process. Of course, one might contend that the policy-making process described by interest-group liberalism is simply an example of one type of mutual adjustment—deferential adaptation, or the extreme case thereof, delegation. But such an argument must meet the objection that Lowi places much more stress on such a method of policy-making than Lindblom and regards it as the distinctive method of this current constitutional epoch. To the extent that Lowi is correct in his description of the policy-making process, Lindblom's other methods of mutual adjustment, which involve group competition and resolution of group disagreement by negotiation, bargaining or other type of face-to-face contact, become insignificant.

33Ibid., pp. 105-106.
Lindblom-Wildavsky budgetary literature

The Lindblom-Wildavsky incrementalist segment of the budgetary literature suggests that the President would have a difficult time if he chose to respond to a recession by increasing spending or if he proposed a new program involving the expenditure of large sums. Lindblom argues that budget decision-making procedures, which include incrementalism and partisan mutual adjustment, take into account the limitations on human problem-solving capacity. As with other types of policy, there is no agreement on ends and means. For example, some policy-makers view tax reduction as an end, while others regard it as a means to full employment. Actual budget making procedures allow policy-makers to take advantage of agreements wherever they can find them.34

Wildavsky also stresses those aspects of the budgetary process that aid participants in making their calculations. He explains how the experiential, simplified and incremental nature of budgeting aids calculation. Budget officials "satisfice" rather than "maximize." The

concepts of base and fair share also aid in calculations.\(^{35}\)
The roles of the various participants in the budgetary process also serve as aids to calculation by defining the behavior typically expected of participants in a manner that brings about coordination. Agencies are expected to act as advocates for their requests while the Budget Bureau functions as the President's servant with a cutting bias. The House Appropriations Committee is expected to act as the "Guardian of the Treasury" and the Senate Appropriations Committee as the "Responsible Court of Appeals." The performance of one participant's role depends on the other participants performing their own.\(^{36}\) Wildavsky suggests that the distribution of roles in the process is such that most budgetary transactions result in the reduction of

\(^{35}\)Aaron Wildavsky, The Politics of the Budgetary Process (Boston: Little, Brown & Company, 1964), pp. 11-17. Wildavsky explains that "[t]he base is the general expectation among the participants that programs will be carried on at close to the going level of expenditure but it does not necessarily include all activities." (p. 17) The notion of fair share "means not only the base an agency has established but also the expectation that it will receive some proportion of funds, if any, which are to be increased over or decreased below the base of the various agencies." Ibid., p. 17.

\(^{36}\)Ibid., pp. 18-57, 160-162. Wildavsky explains that agencies need not concern themselves in great detail with the impact of their request on the President's program, since the Budget Bureau will look after this. (p. 162) He also points out how the Senate's role as responsible court of appeals depends on the agency's role as advocate and on the House Appropriations Committee's role as guardian of the Treasury. (p. 52) For a summary of his view on the aids to calculation in the budgetary process, see p. 62.
increased agency requests and that this helps explain the long-term trend of slightly rising expenditures. The use of strategies in the process helps account for the difficulty of sharp reductions as well as for the seizure of opportunities created by crises to increase expenditures sharply.37

Thus, Wildavsky explains that the budgetary process reduces the burdens of calculation in several ways. First, only a small number of feasible alternatives are considered at a time. Second, policies differ only incrementally from past policies, on which there is an abundance of information. Finally, each participant assumes he has to consider only his own preferences and those of his powerful opponent "since the American political system works to assure that every significant interest has representation at some key point."38 The empirical study of the budgetary process by Davis, Dempster, and Wildavsky confirms the importance of base in the budgetary process and the temporally stable nature of the process. Most changes of decision rules occurred at the change of administration, thereby suggesting that "alterations in political party and personnel occupying high offices can exert some (but not total) influence

37Ibid., pp. 125-126.
38Ibid., p. 130.
Roger Hilsman has presented a conflict-consensus model for the policy process that builds on pluralism and Lindblom, but also stresses the notion of different policy areas and corresponding political processes. Hilsman argues that the political process, especially with respect to participants and the roles or functions they perform, varies with the type of policy involved. The process is

39 Otto A. Davis, M. A. H. Dempster, and Aaron Wildavsky, "A Theory of the Budgetary Process," American Political Science Review, LX (September, 1966), 543-544. While some literature on spending at the state level [e.g., Thomas R. Dye, Politics, Economics and the Public Policy Outcomes in the United States (Chicago: Rand McNally and Co., 1966)] suggests that economic factors are more influential than political factors in explaining policy outcomes, Ira Sharkansky, in effect, confirmed the importance of base in the budgetary process when he found that the state spending in the recent past is the best predictor of current state spending. See Ira Sharkansky, Spending in the American States (Chicago: Rand McNally and Company, 1968).

40 Hilsman's pluralist assumptions appear in the following description of the policy process: "Even when relatively clear-cut decisions are made, it is difficult to see who made them. . . . Few participants see themselves as having the power to make decisions. It is an enormous victory to have blocked an action or even to have modified it. More often, satisfaction comes from having supplied an input for a decision rather than an outcome. There seem to be few decision-makers in practice, but only inputters, recommenders, vetoers, and approvers. And a person's role on one issue may be quite different from his role on another issue that seems identical in all its essentials." Roger Hilsman, "The Foreign-Policy Consensus: An Interim Research Report," Journal of Conflict Resolution, III (December, 1959), 362-363.
characterized by many groups, incremental change, and conflict and consensus building. A consensus is not a necessary condition for the adoption of a policy, but participants follow the techniques of consensus building—persuasion, bargaining, etc.—in an attempt to have their policy adopted. An impasse may either free a President to act on his own or mean no action at all.41 While the President is most likely to follow an established consensus, his influence in setting the frame of debate and in mobilizing nationwide resources helps account in large part for forming a consensus.42

While Hilsman's policy categories deal with foreign affairs, his model and findings lend support for the utility of an issue-area approach. The findings indicate that participants tend to specialize in one area of policy (although there is some overlap) and that the nature of the involvement varied with the type of issue. Only a very few participants were involved in the three areas he studied. These included the President, a few members of his immediate staff, occasionally the Secretary of State and his principal advisers, the top leadership of Congress and a scattered group of others, and members of the press. He also found more formal bargaining within the Executive rather than between the Executive and Congress. The

41Ibid., p. 371. 42Ibid., pp. 371-372.
bargaining that occurs between Congress and the Executive usually took the form of modification of Executive proposals in anticipation of expected Congressional reaction. Perhaps a similar pattern of widespread involvement by the President and some of his economic advisers may be found among various types of economic policy.

A particularly interesting feature of Hilsman's model is his suggestion of various roles in the policy process. In a rather nonsystematic fashion, he suggests that participants in the policy process perform the following functions:

- originating ideas; debating and testing ideas; persuading or selling a policy proposal [within the department, other agencies and Congress]; developing policy proposals; aggregating alternatives; modifying, vetoing, appraising past results; and enlisting public support where necessary.

He suggests that participants perform a variety of roles and that this might vary with the issue and even over time on the same issue. Hilsman may have a useful point when he suggests the policy process involves the performance of certain functions, but one regrets he is not more explicit and systematic in his discussion of these roles or functions. In addition, Hilsman's emphasis on conflict and consensus may

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43 Ibid., pp. 378-379.
44 Ibid., p. 366.
45 Ibid.
neglect the possibilities for settling policy matters in other ways such as suggested by Lowi with his concept of interest-group liberalism.

**Lowi's arenas of power**

More explicitly than any writer previously discussed, Theodore Lowi develops the notion of areas of policy and characteristic processes associated with them. He argues that the types of relationships among people are determined by their expectations. In politics expectations are determined by governmental policies. "Therefore, a political relationship is determined by the type of policy at stake, so that for every type of policy there is likely to be a distinctive type of political relationship."^46

Defining types of policies in terms of their impact or expected impact on society, Lowi suggests three major categories of policy--distribution, regulation, and redistribution. Distributive policies refer to those policies that can be made in the short run without regard to limited resources. Examples include the traditional tariff, contemporary public land policies and rivers and harbors programs. Regulatory policies, while specific and individual in impact, cannot be almost infinitely disaggregated as can distributive policies. Regulatory policies involve a direct choice between who will be benefitted or protected and who

will be deprived. They cannot be disaggregated down to the level of the individual or firm because they involve the "application of a general rule and therefore become interrelated within the broader standards of law." Redistributive policies involve relations among broad categories of private individuals. Broadly speaking, these policies involve a conflict between the "haves" and the "have-nots" or between the "money providers" and "service demanding" groups in our society. With respect to this last category of policy, what is important is not so much the actual redistributive impact on society of a particular policy as much as its expected impact.

Lowi contends that each of the three arenas of power resembles a segment of the literature of political science. He believes that Schattschneider's case study of tariff making in the 1930's is an apt description of the entire area of distribution. This is the politics of every man (or firm) for himself. Hence, the pressure group or pluralist model is not really applicable. Policy-making in this arena should not be understood as a process of conflict and compromise; rather, it should be seen as a process of cooptation. The typical alliance is logrolling, i.e., an alliance built on uncommon, not on common,

47Ibid., p. 691.
48Ibid.
interests. Lowi describes the power structure for this policy area as a stable, non-conflictual elite with support groups. Congressional committees and/or administrative agencies are the primary decisional locus.

The regulatory arena of power is well described in the pluralist tradition. In this arena, a multiplicity of groups organize around what Lowi calls tangential relations or shared attitudes. Citing David Truman, he argues that pluralists suggest that both logrolling and alliances based on common interests are more or less appropriate strategies for any type of policy-making. Lowi, however, believes that each type of alliance is characteristic of a particular arena. Thus, in the regulatory arena, relations among groups are characterized by coalitions based on shared interests and by bargaining. The power structure is pluralistic and unstable, which causes the disputes to spill over into Congress, the primary locus for decision.

In the redistributive arena, Lowi suggests that the major struggle approximates a class conflict between the money providers and the service demanding groups. This involves the major "peak associations" and different elements in the executive bureaucracy as spokesmen for the two

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49 "Distributive issues individualize conflict and provide the basis for highly stable coalitions that are virtually irrelevant to the larger policy outcomes." *Ibid.*, p. 695.

classes. Congress has the role of ratifying agreements that have been worked out by these elements. The power structure in this arena is stable and is characterized as a "conflictual elite," by which Lowi means one elite faces a counter-elite. He believes that some of C. Wright Mills' power elite analysis is applicable to this arena of power, since the key decision-makers seem to be the holders of what Mills called the "command posts" of society. ²²

Lowi believes that the movement of the tariff issue from the distributive arena, as described by Schattschneider in the 1930's, to the regulatory arena, as described by Bauer, Pool and Dexter, confirms the utility of his analytical scheme. He argues that the tariff underwent redefinition as it moved away from a purely domestic significance to an instrument to regulate the domestic economy for international purposes. It could no longer be infinitely disaggregated. When the tariff lost its capacity for infinite disaggregation, the Ways and Means committee lost its power to contain the conflict. ²³

Lowi's analytical scheme appears to offer many propositions that describe the behavior of the participants in the making of economic policy. His redistributive arena might be applicable to the tax policies that will be studied. Yet, two problems with Lowi's scheme must be

²²Ibid., pp. 703-715. ²³Ibid., pp. 699-703.
remembered. One problem concerns the placement of issues in different policy areas. Lowi seems unclear on the following points: (1) whether policies are classified on the basis of their impact or their expected impact on society; and (2) whether the participant or the observer classifies policies into one of the three policy areas. He seems to believe that no important differences between the observer and the participant will exist with respect to the distributive and regulatory arenas. But Lowi stresses that what matters with regard to the redistributive arena is not the actual impact, but the expectations about the redistributive effects of the policy. But why is the scheme based on actual impact for two types of policy and on expected impact for the third? What if the participants disagree on the expected redistributive impact? Such a disagreement is likely in view of Lowi's comment that, as a matter of strategy, participants may try to define a controversial issue in redistributive terms "in order to broaden the base of opposition or support." How does the observer determine whose definition of the policy prevails?  

\[54\] Ibid., p. 707, note 25.

\[55\] A similar type of confusion surrounds his use of the word "sector" in ibid., p. 691, note 18. Lewis Froman also finds Lowi confusing on the point of whether the observer or participants are to classify issues. See Lewis A. Froman, Jr., "The Categorization of Policy Contents," in Austin Ranney (ed.), Political Science and Public Policy (Chicago: Markham Publishing Co., 1968), pp. 41-54. For
A second problem is that he never really explains why the tariff underwent redefinition, or, more importantly, who was responsible for the redefinition. This is important because, under his scheme, the definition of an issue into a policy arena determines the political relationships that influence the outcome. Perhaps the President has a special role in this redefinition. It is difficult to understand how Lowi can maintain that his scheme accounts for this movement. His concepts and hypotheses deal with the separate arenas and not with the movement of issues from one arena to another.

A Policy Process Framework

Four major points contained in the foregoing literature review have been incorporated into the analytical framework that will be used in this study. First, this study accepts the contention of Lindblom that it is more useful to focus on the process of policy-making than of decision-making. Second, this dissertation is based on the notion advanced by Dahl, Hilsman and, most explicitly, Lowi that the policy process varies with the issue area. This dissertation will apply the framework to one type of policy--economic policy. But when applied to other kinds

of policies, the framework provides the basis for comparing Presidential behavior in the making of various kinds of policy.

A third point incorporated into the framework is the notion that it is useful to conceive of the policy-making process as including a set of functions. Lindblom and, more explicitly (if nonsystematically) Hilsman discussed "tasks," functions, or roles in the policy process and suggested that the participants that performed the various functions may vary with the issue. The framework suggests nine functions. This dissertation will try to explain which participants performed the various functions of the policy process and particularly which functions the President performed.

A fourth feature of the literature incorporated into the framework concerns the role of ideology in influencing behavior in the policy-making process. Although not explicitly using the term ideology, many of the authors reviewed suggest that values are important in explaining policy-making. Truman and Dahl emphasize the role of democratic norms or rules of the game. More directly related to a discussion of ideology is the budgetary literature, which suggests that changes in decision rules coincide with changes in personnel and party at the time administrations change. More explicitly, Lindblom suggests that ideology serves to remove some beliefs from criticism or at least
provides arguments on their behalf. With regard to economic policy-making, ideology may influence participants to advance, ignore or oppose specific proposals.

Briefly stated, the model of the policy process to be employed in this dissertation conceives of participants, both individuals and groups, performing certain functions within specified political and social structures or institutions. These participants are influenced by several variables, including their perception of their own interest and different types of ideology. In seeking to influence policy, these participants pursue various strategies and form alliances. This framework takes into account the objection that pluralists focus on participants without considering the limitations that institutions place on the raising of issues. Three functions (initiation, definition of the issue and formulation) focus attention on the manner in which issues arise and responses are formulated in the policy process. The framework also suggests that ideology as well as self-interest influence participants.

In addition to the President, on whom primary attention will focus, other likely participants in the cases under study include: Council of Economic Advisers; Treasury Department; Budget Bureau; Federal Reserve Board;

56 For this model of the policy process, I am indebted to Myron Hale. It is based on ideas developed in several of his classes, although he should not be held responsible for this specific formulation.
Congressional committees; interest groups; and parties. Consideration will be given to these other participants insofar as they affect the President's behavior.

This model of the policy process includes the following functions: (1) initiation; (2) definition of the issue; (3) formulation; (4) communication; (5) mobilization; (6) modification; (7) representation; (8) prescription; and (9) veto. Although this particular set of functional categories does not exist in the literature, several of them resemble functions or represent a combination of functions or of activities discussed in the literature. As used in this framework, the function of initiation refers to raising or calling attention to a problem or issue as a subject for political consideration. Lindblom and Hilsman refer to a similar function; Lindblom mentions initiation as one of the "specialized tasks" in the policy process and Hilsman refers to initiating ideas as one of the functions performed in the policy process.

57Harold Lasswell has suggested seven functions in the decision process: intelligence; recommendation; prescription; invocation; application; appraisal; and termination. See Harold D. Lasswell, The Decision Process: Seven Categories of Functional Analysis (College Park, Maryland: Bureau of Governmental Research, University of Maryland, 1956). I have not employed these categories because they seem to me to indicate more of a rational, intellectual process of decision-making rather than a political or social process of policy-making. The functional categories I have employed and the names given to them indicate quite accurately the kinds of behavior in the policy process that I am interested in.
Definition of the issue refers to setting the terms or framework for debate on an issue. This may involve indicating in general form an appropriate governmental response to a problem, setting a contemporary problem or issue in the context of past governmental policies or defining the expected impact on society of a governmental response to the problem. Defining the issue involves an expression of the "stakes" that are likely to be involved. In a sense, the function incorporates three of Lindblom's "specialized tasks": establishing constraints on alternatives to be considered; widening the range of choice; and stimulating new policy ambitions. Defining the issue is also similar to his conception of reconstructive leadership. This concept also draws on Lowi's contention that issues are fought out on the basis of past policy decisions and that an issue is defined in terms of previous issues of the same type.

Formulation means drawing up a specific plan for a governmental response to the problem. This function resembles Hilsman's functions of developing proposals and aggregating alternatives.

Communication refers to transmission of information or creation of interest in the problem or the proposed solution. Implicit in much of the policy-making literature is the notion that participants need to have information of the problem, proposed solutions and each other's preferences.
Mobilization refers to mobilizing support or opposition to the proposed solution. This function is similar to two mentioned by Hilsman: seeking support within the government and enlisting public support for a particular proposal.

Modification refers to attempts to amend the proposal. This is a function common to several conceptions of policy-making. For example, Hilsman specifically notes it as one of the functions. In addition, modification is one of the features of the process discussed in the budgetary literature.

Representation refers to governmental or non-governmental elites representing the perceived views of their constituency (either legal or political) in the policy process. This function obviously derives from the pluralist and group theory literature, which suggests that interest groups as well as the governmental agencies through whom they gain access represent the views of various interests in the policy-making process.

Prescription refers to the authoritative selection of a particular proposal. The Congress and President will generally share the performance of this function, although the President or some other participant may perform it alone. The notion of an eventual selection of a particular policy is implicit in all of the policy process literature, although this selection may not be the result of one
specific decision, but rather of several small ones.

Finally, the veto function refers to the authoritative rejection of an entire proposal. This function is usually performed by the President, although under certain circumstances, it may be performed by Congress or by other participants as well. Hilsman mentions veto as one of the functions in the policy process, and Dahl suggests the importance of vetoing a proposal in any estimate of the influence of participants in policy-making.

One way to assess the relative importance of these functions in affecting the final policy outcome is to ask whether one participant's performance of a particular function or set of functions generally results in a final policy outcome favored by him. Hilsman suggests the importance of setting the framework for debate, i.e., definition of the issue. Lowi's whole framework is predicated on the assumption of the importance of the definition of the issue. Dahl suggests the importance of the formulation (which he refers to as initiation) and veto functions as measures of influence. And the critics of pluralism reinforce the importance of the definition of the issue function when they contend that power can be exercised by preventing issues from arising.

The model hypothesizes that ideology influences the behavior of participants. The term ideology will be used
to refer to a set of action-related ideas. This concept will be employed in several ways. First, personal ideology will refer to a participant's set of action-related ideas. A particular interest of this study is how personal ideology relates official responsibilities to economic goals, especially how the President's image of office influences his behavior in economic policy-making. A political party's ideology as it relates to economic affairs and as it influences Presidential behavior will also be examined. The influence of the dominant or traditional economic ideology as well as that of any new economic ideology on participants' behavior will also be considered.

This model will provide a framework within which to study the President's increasing economic responsibilities. One important aim is to explain which functions he performed in the economic policy process. These functional categories as well as the policies produced provide the basis for a rough measurement of any increase in his behavior and for relating certain types of Presidential behavior to specific variables. This kind of approach may be applied to other types of policy to determine whether Presidential behavior varies with issue areas.

The Policy-Process Framework and Theories of Policy-Making

The literature review suggests several propositions that may be applicable to participants' behavior in the performance of one or more functions in the four cases to be studied. The following discussion specifies those propositions I expect to be applicable to the different functions in the policy process. In this section, only those functions for which there are tentative propositions are listed.

Initiation

The literature contains two alternative propositions regarding the performance of the initiation function. Group theory suggests interest groups would be the participants likely to raise an issue for political discussion, but the Bauer, Pool and Dexter critique suggests that public officials might be the first to raise an issue for public discussion.

Definition of the issue

The President's position in the political system makes him better able than other participants to define the issue. Lindblom suggests that the President's position gives him a national overview. Hilsman argues that his position enables him to set the framework for debate.
Other propositions relate to the manner in which the President (or other participants) are likely to define the issue. Lindblom's theory suggests that participants will define a proposed response as only incrementally different from existing policy and contend that it serves several objectives. In other words, participants are likely to employ the technique of partisan analysis in performing the definition of issue function. Participants are also likely to be influenced by their ideology in defining the issue. Group theory suggests that the views of those groups that supported the President for nomination and election will influence his definition of the issue. Lowi suggests that the ideology of interest-group liberalism will influence participants' definition of some issues.

Formulation

Truman, Dahl and Lindblom suggest that proposals are formulated as a result of compromise and adjustment of various interests. Truman suggests that the President plays a leading role in adjusting competing interests. In formulating proposals, participants tend to consider a limited set of alternatives, those that differ only incrementally from existing policies. Ideology also influences the range of alternatives a participant will consider formulating. In addition, in formulating proposals, participants will be influenced by considerations of political feasibility. Lindblom contends that participants constantly reappraise
the desirable and the feasible in light of one another. Hilsman suggests that Administrations take into account anticipated Congressional reactions in formulating their proposals. Participants are likely to agree on a proposal for different reasons and to seek agreement through partisan mutual adjustment, particularly partisan analysis. From the Lindblom-Wildavsky budgetary literature, one may infer that the role structure and norms of the budgetary process would make it unlikely that participants would formulate an increased spending proposal as a major response to a recession. Finally, Lowi suggests that peak associations and their allies in the federal bureaucracy are the participants that formulate redistributive policies and that their decisions are generally ratified by Congress.

**Mobilization**

Hilsman suggests that participants mobilize support by following the techniques of consensus building. From Lindblom, one may suggest that participants are likely to employ partisan analysis in order to seek the support of other participants. Truman suggests that participants are likely to engage in the building of two types of mutual assistance coalitions— alliances and logrolling. Finally, critics of group theory suggest that public officials may mobilize support by motivating interest group leaders.
A central element of group theory is that interest
groups will represent the views of their members in policy-
making. The group theory concept of access also suggests
that governmental agencies represent the views of interest
groups and social groups in the policy process. The Presi-
dent would also represent the views of those groups that
supported him for nomination and election. A final propo-
sition is Lowi's suggestion that, with regard to redistribu-
tive issues, peak interest groups and elements of the
bureaucracy serve as the chief spokesmen for the two
classes.

The Selection of Cases

In order to explain the increased Presidential role
in economic affairs, I will apply this framework to Presi-
dential behavior in four cases of economic policy-making in
the Eisenhower, Kennedy and Johnson Administrations. A
study of four such cases will suggest whether Presidents
from different parties and with different images of their
offices behave differently in the policy process. The
following four cases were selected for study because they
constitute major governmental actions under the Employment
Act: (1) policies to deal with the 1954 recession; (2)
policies to deal with the 1958 recession; (3) the 1964
tax cut to stimulate the economy; (4) the 1964 poverty
program. Two cases involve governmental activity in
response to the two major recessions that occurred during the Eisenhower Administration. The 1964 tax cut was passed not during a recession in order to stimulate recovery, but during relatively "good times" in order to stimulate greater growth in the economy. The poverty program was selected because it represents a broad interpretation of governmental and Presidential responsibility under the 1946 Act; it was designed to aid the chronically poor who had been unaffected by the earlier aggregate measures.
CHAPTER II

PRESIDENTIAL BEHAVIOR DURING THE 1954 RECESSION

This chapter will analyze the political behavior of President Eisenhower during the 1954 recession by applying the framework discussed in the previous chapter to the formulation of proposals and adoption of policies that were perceived as constituting a response to recessionary conditions. The following six major proposals and policies will be studied: (1) the January 1, 1954, scheduled reductions in the excess profits tax and in the income tax; (2) tax reductions enacted under the stimulus of the scheduled expiration of the increase in rates of the excise taxes and corporate profits taxes; (3) the Administration's proposed revisions of the Internal Revenue Code; (4) the Administration's planning for a possible public works program; (5) monetary policy; and (6) various administrative measures which could be taken on the basis of executive authority alone, particularly a proposed step-up in the rate of governmental expenditures.

These tax proposals were not initially formulated as countercyclical proposals, but had been scheduled for consideration before the onset of the recession. The January 1, 1954, scheduled reductions in the excess profits and income...
taxes were expected to produce an annual tax loss of $5 billion--$3 billion from the income tax reduction and $2 billion from the expiration of the excess profits tax. However, taking into account a $1.3 billion increase in social security taxes that was scheduled to occur on the same date, the anticipated net tax loss beginning January 1, 1954, was $3.7 billion. In addition, the expiration of excise taxes and reduction in corporate income taxes scheduled for March 31, 1954, were expected to amount to another $3 billion tax loss. The Administration's proposed changes in the Internal Revenue Code anticipated another $1.4 billion reduction. Thus, if all the scheduled reductions were permitted to take place, the total tax reduction would have amounted to $8.1 billion.¹ When the downturn was perceived, these tax measures embodying extensive reductions were interpreted as and employed as countercyclical measures. In this sense, they may be thought of as constituting a response to the recession.

Some of these proposals were not initially proposed by the Administration as countercyclical measures. In some cases, the Administration initially opposed them. And measures that never got past the proposal stage are, 

nevertheless, included because they constitute part of the Administration's response to the recession.

The Political and Economic Context

Concern with inflation

Eisenhower's speeches during the 1952 Presidential campaign suggested a great concern with inflation, which he attributed to excessive spending under the Democratic Administration, and a desire to reduce governmental expenditures (consistent with national security considerations) as well as to reduce the national debt, thereby permitting a major tax reduction. Eisenhower said in a campaign speech in Peoria, Illinois:

My goal, assuming that the Cold War gets no worse, is to cut federal spending to something like $60 billion within four years. Such a cut would eliminate the deficit in the budget, and would make way for a substantial tax cut.

He also promised to do whatever was required to prevent a depression, but was vague on what he thought were appropriate policies to meet such an eventuality.

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4For example, on October 25, 1952, in a campaign speech in Harlem, he promised to use all the force available to private enterprise, state and local governments, and the federal government to prevent a recession or depression. During this speech, Eisenhower said: "If the
At the beginning of its tenure, the Eisenhower Administration took certain actions aimed at reducing both governmental controls over the economy as well as the danger of inflation. In his State of the Union Message of February 2, 1953, Eisenhower announced his intention of ending direct controls on wages and prices. On February 6, he abolished all wage and many price controls. On March 18, all of the remaining price controls were ended. It appears that Secretary of the Treasury George Humphrey was primarily responsible for the removal of these controls.5

During the first four months of 1953, the Federal Reserve Board, apparently also concerned about inflationary pressure, pursued a restrictive policy with Administration approval. In January, the Federal Reserve raised the rediscount rate and engaged in the substantial sales of securities.6 Alvin Hansen points to actions and policy statements which suggest that, at least by February, 1953, the Board and the Open Market Committee believed that

finest brains, the finest hearts, that we can mobilize in Washington, can foresee the signs of any recession and depression that would put honest hard working men and women out of work, the full power of private industry, of municipal government, of state government, of the Federal government will be mobilized to see that it does not happen. I cannot pledge you more than that." Holmans, op. cit., p. 198.

5Ibid., p. 203. 6Ibid., p. 207.
inflationary pressures had subsided somewhat. In April, 1953, after price controls had been lifted, Secretary of the Treasury Humphrey, who was still concerned about inflation, reinforced the restrictive policy of the Federal Reserve by offering an attractive issue of thirty-year bonds at 3¼ per cent which was at that time the highest interest rate for government bonds since 1933. These restrictive Federal Reserve policies were reversed in early May with large purchases of securities. In addition, the

7 For example, on February 20, 1953, the Board reduced the margin requirements from 75 per cent to 50 per cent because, according to the Board's Fortieth Annual Report, by "February, 1953, inflationary pressures had moderated." Similarly, the report on actions taken at the March 4-5, 1953, meeting of the Federal Open Market Committee indicates that the Committee saw no new major inflationary pressures developing that would justify any change in monetary policy. Hansen contrasts these views with those of the Treasury, which maintained that new inflationary conditions justified a stronger hard-money policy. See Alvin H. Hansen, The American Economy (New York: McGraw-Hill, 1957), pp. 78-79.

8 Holmans, op. cit., p. 207. According to Sherman Adams, this action by the Treasury "mopped up enough money that would otherwise have gone into corporate stocks and mortgages to cause a mild panic." Adams adds that Humphrey later told him that this move tightened credit a little too much and "instead of fighting inflation he found himself with deflation on his hands." Sherman Adams, Firsthand Report (New York: Harper and Brothers, 1961), p. 161.

9 Holmans, op. cit., p. 208. It should be noted that Holmans and Hansen seem to disagree on the extent to which the Federal Reserve and the Treasury Department agreed on the need for a restrictive policy in early 1953. Citing testimony by Humphrey and Federal Reserve Board Chairman Martin before the Economic Stabilization Subcommittee of the Joint Committee on the Economic Report, in December, 1954, Holmans points to expressions of concern, by both
Administration pursued a deflationary fiscal policy during the first half of 1953 by trying to retain existing tax rates while cutting expenditures. Eisenhower's military policy which placed greater reliance on nuclear retaliatory strength than on conventional weapons was responsible for cutting defense spending, especially for the Air Force.10

Despite these restrictive monetary and fiscal policies, Eisenhower encountered pressures from Republican Congressional leaders to reduce the budget even more and to agree to tax reduction in 1953. At an April 30, 1953, meeting between Administration officials and Republican Congressional leaders, Eisenhower was subjected to a violent outburst from Senator Robert Taft, the Republican Senate leader, who, despite the fact that the Eisenhower Administration had made spending cuts sufficient to reduce the projected deficit for fiscal 1954 from the $9.9 billion figure contained in the Truman budget to $5.5 billion, was still angry because the budget would not be in balance. The President explained that any further cuts would jeopardize national security. According to Sherman Adams' men, about the possible inflationary danger in early 1953 due to an increase in inventories. Ibid., p. 207. However, Hansen argues that the Federal Reserve Board gave greater support to the Treasury's policy at the time of the hearings than during 1953. Hansen, op. cit., pp. 78-79.

account, Senator Taft lost control of himself and shouted at Eisenhower that his program would result in a loss of Republican control of Congress in 1954 and constituted a repudiation of campaign promises. He also said he had no confidence in the Joint Chiefs and that Eisenhower had been taken in by them. He wanted the President to try to eliminate the entire deficit and claimed he could not continue to oppose a tax cut in 1954. When Secretary of the Treasury Humphrey said that further cuts were impossible, Taft replied that there was no difference between the Truman and Eisenhower Administrations on spending. During an interlude of small talk provided by other participants, the President regained his control and then reviewed the country's overseas commitments, expressed his faith in the judgment of the National Security Council on the proposed changes in defense strategy, and politely disagreed with Taft's prediction about the impact of an unbalanced budget on the 1954 Congressional elections. According to Adams, Eisenhower could not understand how Republican Congressional leaders could put costs before considerations of peace or national security.11

11Adams, op. cit., pp. 20-21. While Eisenhower's account of this meeting in his memoirs is substantially the same, he is perhaps a little more generous toward Taft, noting that, unknown to other participants, he was in the last months of a painful terminal illness. Eisenhower, op. cit., pp. 130-131.
Political Pressure for a tax cut

Early in 1953, the President also encountered pressure for a tax reduction from Republican Representative Dan Reed, who was Chairman of the Ways and Means Committee. Reed introduced a bill (H.R. 1) which would have advanced the expiration date of the 11 per cent increase in income taxes from January 1, 1954, to July 1, 1953. He also favored letting the wartime excess profits tax expire as scheduled on June 30, 1953. The Administration opposed both of these moves on the grounds that they would cost the Treasury too much in revenue. Instead, in his May 20, 1953, Message to Congress, the President recommended a six months extension of the excess profits tax until January 1, 1954, and asked that the 11 per cent personal income tax reduction take effect on January 1, 1954, as originally scheduled. He also asked for repeal of the 5 per cent reduction in corporate income taxes and for the postponement of the cut in excise taxes, both of which had been scheduled for April 1, 1954.\(^{12}\) Stressing the importance of budgetary considerations for tax reduction, the President opposed a tax reduction in 1953 because it would mean a deficit, but suggested tax reduction was permissible in 1954 because expenditures would be reduced. Hence, in an effort to

\(^{12}\text{Eisenhower, op. cit., pp. 201-202.}\)
counter the Reed proposal, the President, in effect, made a commitment for tax reduction at the beginning of 1954.13

Speaker Martin and Majority Leader Halleck persuaded the House Rules Committee to block the Reed bill. In retaliation, Reed refused to call a Ways and Means Committee meeting to consider the bill containing Eisenhower's requested six-months extension of the excess profits tax. After attempts at Presidential persuasion failed to move Chairman Reed, the House voted to discharge the excess profits tax extension bill from Reed's committee. Eisenhower signed a six-months extension of the excess profits tax on July 16, 1953.14 Thus, the President succeeded in preventing any advance in the date of income tax reduction and in extending the excess profits tax for six months. However, the price of such success was the creation of an expectation that these two taxes would expire at the end of 1953.

Despite concern of some members of the Administration about the possibility of an economic downturn, most of the

13E. Cary Brown, "Federal Fiscal Policy in the Post-war Era," in Ralph E. Freeman, Postwar Economic Trends in the United States (New York: Harper and Brothers, 1960), pp. 164-165. Treasury Undersecretary Folsom before the Small Business Committee on May 21, 1953, and Treasury Secretary Humphrey before the Ways and Means Committee on June 1, 1953, both testified that the excess profits tax should be repealed after the six-months extension. Ibid. p. 166.

Administration's attention during the autumn of 1953 was focused on the preparation of the President's legislative program for 1954. While various elements of this program were not developed with the primary intention of countering possible deflationary forces, once a recession was perceived as threatening, portions of the program became a vehicle for a response to the situation. As Flash points out, much of Eisenhower's 1954 legislative program had both short-term and long-term significance, and Congressional reaction to it was significantly influenced by the short-term situation.

Dimensions of the recession

The economic downturn began in mid-1953. During the summer the increase in production had come to a halt and by the end of September a decline had begun. However, unemployment did not increase significantly until the end of 1953, rising from 2 per cent in October to 2.7 per cent in November and to 3.7 per cent in December. Unemployment was 4.9 per cent in January, 1954, and rose to 5.8 per cent in

15For an account of the preparation of the President's 1954 legislative program, see Richard E. Neustadt, "Planning and Legislation: Planning the President's Program," American Political Science Review, XLIX (December, 1955), 980-1021.

16Flash, op. cit., p. 148.

17Holmans, op. cit., p. 21.
February and March, after which it dropped slightly, but did not fall below 5 per cent until September, when it dropped to 4.8 per cent.\textsuperscript{18}

Holmans believes that the strongest deflationary force during the initial stages of the recession was the swing from inventory accumulation to liquidation and suggests three causes of this swing. First, he cites the Council of Economic Advisers' suggestion that the swing was due to an "imbalance" between income and demand in 1953, which led first to an undesirable increase in inventories and then to a movement to liquidate inventories. Second, he cites the cut in orders for the military. A third possible cause was the Federal Reserve's restrictive monetary policy. However, Holmans regards this as a rather unlikely cause "because of the length of the lag between the reversal of the restrictive monetary policy and the onset of inventory liquidation."\textsuperscript{19} He also points to Burns' testimony before the Joint Committee on the Economic Report that the swing from inventory accumulation to liquidation was mainly due to the "imbalance," but Burns did agree that the reduction in military orders had an impact on reducing

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\textsuperscript{19}Holmans, op. cit., p. 212.
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inventory needs. Holmans does maintain that "[a]fter the beginning of 1954 the reduction in defense expenditure became the main deflationary force in the economy."\textsuperscript{20} Bert Hickman attributes the original downturn to two major developments--a cutback in defense expenditures and a deceleration in the rate of increases in retail sales. He believes that the contribution, if any, of the Federal Reserve's policy of monetary restraint to the downturn was probably minor.\textsuperscript{21}

\textbf{Eisenhower's image of the Presidency}

Richard Neustadt, James Sundquist, and Emmet Hughes provide different views of Eisenhower's image of the Presidency, but still agree that the domestic policy implications of his image of office were in the direction of passivity rather than activism. According to Richard Neustadt, Eisenhower's image of the Presidency was of an arbiter above politics. Eisenhower appeared to distinguish between public service and politics, approving of the former but disapproving of the latter. His army experience created a preference for orderly procedures. Neustadt regards Eisenhower as insensitive to the power requirements of the

\textsuperscript{20}Ibid., p. 213.

President because he conceived of his role as the hero above politics. James Sundquist relates Eisenhower's conception of the President's role to his conservative domestic political convictions. He argues that Eisenhower's forceful leadership in foreign affairs is evidence against the view that he held a Whig notion of a "weak" presidency. Rather, Sundquist suggests, it would be more accurate to attribute Eisenhower's lack of domestic political leadership to his conservative domestic political preferences.

Emmet Hughes agrees that Eisenhower was a conservative in domestic affairs, but stresses also that rather self-denying nature of Eisenhower's conception of the President's leadership role, which was in many ways a clear contrast to that of Franklin Roosevelt. Eisenhower's concept of leadership stressed conciliation and persuasion, but this was to be exercised in private rather than in public. Hughes also explains Eisenhower's concept of the proper role of the executive and legislative branches and his view that Roosevelt had "usurped" legislative prerogatives.

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In his memoirs, Eisenhower explains his general political beliefs in terms of what he calls the "middle way," which he apparently conceived of as the middle course between the reactionary right and the radical left. Furthermore, he explains that as leader of the minority party, partisanship would diminish the support he required from independents and Democrats.  

Eisenhower's economic ideology

On economic issues, Eisenhower adhered to traditional Republican views on free enterprise, a balanced budget, and a great concern for inflation. Yet, evidently influenced by the public's image of the Republican Party's inability or unwillingness to deal effectively with the Great Depression, he was also concerned to show that a Republican Administration could act responsibly to counter recessionary forces. So, in the Republican tradition, Eisenhower contended that unbalanced budgets lead to inflation which decreased the purchasing power of the dollar for all families, but hit especially hard at the poor.  

He wrote that at the beginning of his Administration, he and his immediate associates were dedicated to the proposition that a rejection of persistent deficit spending was a

\[\text{\textsuperscript{25}}\text{Eisenhower, op. cit., pp. 51, 11, 431.}\]

\[\text{\textsuperscript{26}}\text{Ibid., p. 296.}\]
particularly suitable means of restoring the stability of
the dollar.\textsuperscript{27} From his memoirs, it is clear that he was
proud of his achievement of balancing the budget within two
years, while still providing for what he regarded as essen-
tial services, such as defense.\textsuperscript{28} But acknowledging the
public's unfavorable image of the Republican Party with re-
spect to domestic issues, Eisenhower wrote the follow-
ing:

\begin{quote}
For more than twenty years economic depression had been the skeleton in the Republican closet, locked in by demagogues. \ldots To dispel this fear, in 1954 the Republican supporters in the Congress, had to pass through a trial of fire.\textsuperscript{29}
\end{quote}

A reconstituted CEA

President Eisenhower faced the recession with a
newly reconstituted Council of Economic Advisers. The
continued existence of this economic advisory institution
had been called into question during the Truman-Eisenhower
transition. Towards the end of the Truman Administration,
the Council had met opposition from certain members of
Congress, particularly conservatives, who viewed Chairman
Leon Keyserling and the Council as the spokesman for Fair

\textsuperscript{27}Ibid., pp. 126-127.

\textsuperscript{28}Ibid., p. 131. For additional discussion by
Eisenhower of his economic views, see ibid., pp. 8, 17.
For Sherman Adams' account of Eisenhower's concern about
excessive defense spending, see Adams, \textit{op. cit.}, p. 155.

\textsuperscript{29}Eisenhower, \textit{op. cit.}, p. 304.
Deal policies and Keynesian economics as part of Democratic Party doctrine. The success of Senatorial supporters of the Council in obtaining appropriations for the first three quarters of fiscal 1953 (instead of reducing appropriations for the Council by 25 per cent over the entire year, as opponents had desired) placed the burden for deciding what to do about the Council on Truman's successor. The Council was temporarily at least ended when the Conference Committee on the supplemental appropriations bill for the fourth quarter agreed to $50,000 for a single economic adviser.

Upon the advice of Gabriel Hauge, an economist on the White House Staff, President Eisenhower appointed Arthur F. Burns of Columbia University and the National Bureau of Economic Research initially as his single economic adviser. Once in this position, Burns set out to re-establish the Council and when the Council was formally re-established, he was appointed its chairman.

30 Holmans, op. cit., p. 200. For a discussion of the extent to which Keyserling's views on expansion economics were accepted, see Flash, op. cit., pp. 95-97.

31 Holmans, op. cit., p. 201; Flash, op. cit., pp. 99, 104. Senatorial supporters of the Council who were able to obtain appropriations for the first three quarters of fiscal 1953 included Ellender, Maybank, O'Mahoney, Saltonstall and Taft. Primarily because of Senator Taft, the Senate had voted full funds for the entire Council for the fourth quarter, but Chairman John Taber of the House Appropriations Committee opposed this.

32 Holmans, op. cit., p. 202; and Flash, op. cit., p. 105.
economist well known for his work on business cycles and for his disenchantment with Keynesian economics, Burns had spent most of his professional life in the academic world.\(^2\) At the time he took office, Burns believed that there were two important obstacles that hindered the operation of the CEA as formerly constituted. One was its multi-headed quality with the chairman having no special powers. The other was the lack of established channels of communication between the Council and other agencies of government.\(^4\) The President tried to meet these objections by reorganizing the Council and by establishing the Advisory Board on Economic Growth and Stability (ABEGS). The President's decision to recommend the re-establishment of the full CEA was apparently influenced by both Hauge and Burns.\(^3\)

\(^2\)Flash, op. cit., p. 102. Burns had taught at Rutgers University from 1927 to 1941 and had become a member of the staff of the National Bureau of Economic Research in 1930 and of Columbia University Department of Economics in 1941. He says he was attracted to the position in the Eisenhower Administration by the candidate's campaign statements about using countercyclical measures to combat a recession, the opportunity to serve, appreciation of the fact that the President thought he was needed and a chance to restore the reputation of the Council. He accepted on the condition that he have the right to review the other two appointments to the Council. Ibid., pp. 102-103.


\(^3\)For example, Sherman Adams reports that he had originally leaned toward a single economic adviser (apparently mainly because he wanted to hold down the budget of the
The President submitted Reorganization Plan No. 9, which contained Burns' plan for reorganizing the Council as well as an announcement to establish ABEGS, to Congress on June 9, 1953, and Congress permitted the plan to take effect two months later. The reorganization plan made the chairman the operating head of the Council, abolished the position of vice-chairman, and transferred the function of reporting to the President and the responsibility for making staff appointments from the Council as a whole to the chairman.36

Chaired by Arthur Burns, ABEGS37 consisted of representatives of the following departments and agencies: Treasury; Agriculture; Commerce; Labor; Federal Reserve; Budget Bureau; and the White House Staff.38 ABEGS was

President's Executive Office), but received a lecture from Gabriel Hauge on the value of a full Council in view of the possibility that economic decisions might have a major impact on the political success of the Eisenhower Administration. Adams, op. cit., pp. 155-156.

36Flash, op. cit., p. 105; Silverman, op. cit., p. 15.

37This board was in line with Burns' recommendation for more regularized communication between the CEA and other agencies. While he originally wanted a type of economic cabinet, composed of the CEA Chairman, the Federal Reserve Chairman, the Secretary of the Treasury and other cabinet officials, Burns later decided it was better to start at the subcabinet level. Flash, op. cit., p. 106; Silverman, op. cit., p. 15.

38The members of ABEGS were as follows: Undersecretary of the Treasury Marion B. Folsom; Undersecretary of Agriculture True D. Morse; Undersecretary of Commerce Walter Williams; Assistant Secretary of Labor Rocco
charged with keeping the President "closely informed about the state of the national economy and the various measures necessary to aid in maintaining a stable prosperity." 39

As an adjunct to ABEGS, an Auxiliary Staff Committee was created, composed of members of the senior staff of departments and agencies represented on the Advisory Board, whose function was to review and analyze proposals to be presented to the Advisory Board and to brief individually members of ABEGS before meetings. 40 Thus, Eisenhower had a fully reconstituted CEA and an interdepartmental committee designed to facilitate communications on economic matters with which to fight the recession.

Siciliano; Assistant Director of the Bureau of the Budget
Paul L. Morrison; Member of the Board of Governors of the
Federal Reserve Abbott L. Mills; Administrative Assistant
to the President Gabriel Hauge; and Chairman Arthur F.
Burns of the Council of Economic Advisers. Economic Re­

39 Flash, op. cit., p. 106.

40 The members of the Auxiliary Staff Committee were
the following: Ewan Clague, Commissioner, Bureau of Labor
Statistics, Labor Department; Neal J. Hardy, Assistant
Administrator, Division of Plans and Progress, HHFA; T.
Weldon Jones, Economic Adviser, Budget Bureau; Don Paarl­
berg, Assistant to the Secretary of Agriculture; Louis
Paradiso, Chief Statistician, Office of Business Economics,
Department of Commerce; Winfield W. Riefler, Assistant to
the Chairman of the Board of Governors, Federal Reserve
System; Dan T. Smith, Assistant to the Secretary of the
Treasury; and Ralph A. Young, Division of Research and
Statistics, Board of Governors, Federal Reserve System.
CEA Chairman Burns

An important part of Burns' personal ideology was his interpretation of the Employment Act and his conception of the role of the CEA member. He believed that the Act:

... expresses the plain intent of the Congress that the members of the Council should function as professional economists, giving their views on economic problems and policies in an objective non-partisan manner.\(^41\)

He stressed the importance of business competition as a key variable in influencing higher productivity. As chairman, he felt he would avoid speeches and political activity.\(^42\)

In *Prosperity Without Inflation*, published after his tenure as chairman, Burns further discusses his interpretation of the Employment Act, the conditions under which the government should take action and the kinds of measures that should be invoked. His understanding of the Act's declaration of policy places the promotion of free competitive enterprise as a goal along with the prevention of or moderation of economic fluctuations and the promotion of maximum employment, production, and purchasing power.\(^43\) He

\(^{41}\)Flash, op. cit., p. 106.

\(^{42}\)Burns stated: "[M]y own personal inclination would be to stay out of the limelight, make my recommendation to the President, indicate to him what the basis of the recommendation is... and then, having done that, to remain eternally quiet." Ibid.

\(^{43}\)Arthur F. Burns, *Prosperity Without Inflation* (New York: Fordham University Press, 1957), p. 25. For a discussion of two different interpretations of the Employment Act, one stressing that portion of the policy declaration that announces the goals of "maximum employment, production
also contends that government is more willing, for political reasons he appears to understand, to work to check recessions than to counter inflation. Although, according to his interpretation, price stability is already a goal of the Employment Act, he believes it would be useful to amend the Act to include such a goal, for such a change in language would, in his view, alter the framework for debate on economic issues in a more desirable direction.

With respect to the conditions under which countercyclical measures should be invoked, Burns writes: "The essential objective, however, is not to prevent all contractions, but rather to maintain an environment that curbs excesses from which recessions often spring and to keep such recessions as do occur from degenerating into severe depressions." He suggests principles to guide governmental actions during a recession and contends that the Administration followed them in its response to the recession. These principles include the notion of prompt and coordinated actions when the economy shows signs of faltering, the requirement that all measures, both long-term and 

and purchasing power," the other stressing "in a manner calculated to foster and promote free competitive enterprise," see Flash, op. cit., pp. 10-12.

44Burns, op. cit., p. 41.
45Ibid., pp. 77-78.  46Ibid., p. 29.
short-term, be of such a nature as to create confidence among consumers and businessmen (but not strong enough to cause inflation), and the spacing of monetary, fiscal and general housekeeping actions to give the private sector an opportunity to make the necessary adjustments and gather strength. His recommendations for countercyclical actions are as follows: first, easy credit; second, tax reduction for individuals and businesses; third, rescheduled federal expenditures (but still remaining within totals set by long-term considerations); and finally, public works as a last resort. Regarding public works, he stresses the need for planning so they can be implemented quickly and in a manner that will not restrict private investment.47

**Initiation**

As applied to the 1954 recession, initiation refers to raising or calling attention to the recession as an issue for political consideration. This function was performed primarily by the Council of Economic Advisers, the agency established for the purpose of helping the President prepare for such an eventuality. Towards the end of 1952, President Truman's Council of Economic Advisers had

47Ibid., pp. 33-34. For a discussion of Burns' theoretical approach to economics, which Flash terms inductive economics, and its consistency with the conservative policy objectives of the Eisenhower Administration, see Flash, op. cit., pp. 102-103, 159-160.
discussed the possibility of a recession. Before the end of April, 1953, possible danger signs were noticeable in four of the eight indicators used by the National Bureau. In February, the stock market had begun to drop as had the average weekly hours of work. New construction had also declined and in March, the seasonal upswing in housing starts was weaker than usual. In *Prosperity Without Inflation*, Burns states that economic warning signs appeared by the end of the spring of 1953. He points to an increase in retail and wholesale inventories and also to a decline in the length of the work week in manufacturing. By mid-1953, it was clear to Burns that the inventory increases were involuntary. He attributes reductions in output to attempts by business to adjust inventories to sales and a decline in government spending, especially for defense. As a result, "employment fell off appreciably in manufacturing industries, and to some degree in other parts of the economy."  

48In September, 1952, Robert Turner, who had replaced Blough on the Keyserling Council, had predicted a recession because of the levelling and decline of defense spending. In their final review to President Truman, Keyserling, Turner and Clark asked whether deflation and unemployment would be produced by increased productivity and moderating defense outlays. *Flash, op. cit.*, p. 111.

49Ibid.

A July 9, 1953, Budget Bureau directive, which cautiously suggested that an increase in public construction might possibly be needed, suggests that this agency had become aware in the early summer of 1953 of a possible downturn. The directive stated:

Increased emphasis will be given to the development of plans for authorized high priority projects to a stage where these projects could qualify for construction at a time when construction starts would be consistent with a less restrictive budget policy.\(^5\)

This directive resulted in the inclusion of twenty new projects and the resumption of work on an additional six in the fiscal 1955 budget.\(^5\) Within the Administration, concern for a possible recession was not so deep or extensive to change the Administration's primary concern with a restrictive budgetary policy for the 1955 fiscal year. While the Administration was following a restrictive budgetary policy in preparing the fiscal 1955 budget, the Budget Bureau staff with responsibility for economic projections was anticipating a levelling off of GNP in the second half of 1953 or the first half of 1954 and a decline in GNP into 1955. The Labor Department's Bureau of Economic Security also notified state employment security agencies to anticipate a downturn by mid-1954. But as Flash notes with respect to these developments, "even taking into account

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\(^5\)Holmans, op. cit., p. 216.  \(^5\)Ibid.
their disquieting significance for the future, these economic developments hardly justified sounding an alarm or initiating a counter attack."\(^{53}\)

Throughout August, Burns was concerned with a possible recession. One of his first assignments was to ask three staff members to prepare a report on what counter-cyclical steps could or ought to be taken in the event such action was needed. Burns and his associates followed the continuing sharp increase in inventory accumulation and the decrease in total business sales during August.\(^{54}\) According to a later statement by Asher Achinstein, a staff member, his study of inventory developments lead him to conclude that "inventories were way out of line and that a recession was on the way."\(^{55}\) Council economists were also concerned about the decrease in spending and the prospects of future budget cuts, even if such cuts were matched by a drop in revenue.\(^{56}\)

During September and October, 1953, the Council's concern for a possible recession was reflected in all its general discussions and provided the basis for making particular assignments. Interagency task forces were established as part of ABEGS to conduct "an intensive study of

\(^{53}\) Flash, op. cit., p. 111.

\(^{54}\) Ibid., p. 113.  

\(^{55}\) Ibid., p. 114.

\(^{56}\) Ibid.
measures to promote the stability and growth of our economy and specific economic programs and policies to be pursued in the event of a general slowing down of economic activity."\textsuperscript{57} And in a September 29, 1953, memorandum to members of the auxiliary staff, ABEGS and members of the Council staff, Burns and Neil Jacoby, advised that "attention should be focused upon measures to be taken within, say, the next six months--when, by whom, for what purpose, and with what probable effect."\textsuperscript{58} Thus, at least by late August, 1953, the President's economic advisers had seriously raised the question of a possible recession in 1954. And, as we shall see in the next section, such a possibility was seriously discussed at a cabinet meeting at the end of September.

**Definition of the Issue**

With respect to the 1953-1954 recession, definition of the issue refers to interpreting economic conditions as recessionary and warranting some kind of governmental response, the suggestion of a general response and the relation of such a response to past governmental actions during periods of recessions. Any interpretation of the "stakes" involved would likely include some notion of the political consequences for the Administration--the first Republican Administration since Hoover--of its handling of the

\textsuperscript{57}Ibid. \textsuperscript{58}Ibid.
recession. A review of the Administration's behavior during the recession of 1953-54 suggests that definition of the issue was a continuous process and that the kinds of programs under consideration, formulated and adopted varied with the definition of the issue.

The Administration's initial definition

At the September 25, 1953, cabinet meeting, Arthur Burns called the attention of the cabinet to the many signs of a possible recession and suggested some appropriate steps. Eisenhower relates that he and Burns had discussed these matters prior to the meeting. Indeed, some prior discussion involving the President is indicated by the fact that three days earlier, on September 22, Secretary Humphrey had publicly announced that the Administration would not oppose the tax reductions scheduled for January 1, 1954. And Adams reports that the President

59Holmans, op. cit., p. 216.
60Eisenhower, op. cit., p. 304.
61According to Sherman Adams' account of this cabinet meeting, Eisenhower and Humphrey accepted Burns' suggestion, made at this meeting, that the taxes scheduled to expire at the end of 1953 be permitted to occur. Adams, op. cit., p. 163. But that this decision could not have been made at this meeting is shown by the fact that the announcement to permit these reductions was made three days before the meeting. This comment by Adams may be taken to suggest that Burns originally suggested to the President and Secretary of the Treasury that the taxes be permitted to expire.
set aside a specific time for meeting with Burns as soon as the downturn began to appear. In addition to these scheduled meetings with the President and the cabinet meetings, both of which provided Burns with opportunities to brief important participants in the policy process, Burns saw ABEGS meetings as an opportunity to prepare subcabinet officials for countercyclical actions that might be required.

At this cabinet meeting, Burns warned that his indicators suggested that an economic "readjustment" would occur. Burns referred to the following specific signs of a recession: (1) a decline in the stock market; (2) an increase in business failures; (3) a dropping off in the volume of orders for durable goods; (4) a decline in residential building; (5) a drop in the average length of the work week; (6) sagging farm prices; and (7) evidence of excessive inventories. He further reported that the situation was not critical, but that precautionary planning against the possibility of further decline was required. He contended that the basic strength of the economy was reflected in its ability to withstand the recent "hard money"

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62 Ibid., p. 156.
63 Flash, op. cit., p. 114.
squeeze, the favorable distribution of income, and the basic soundness of the inventory situation. On the subject of possible countercyclical moves, he stated that the CEA was thinking less of increased spending and more in terms of monetary policy, activities of private business, tax reduction, and federal lending programs to aid construction rather than divert government construction activities. He also stressed the importance of planning well in advance and noted that legislation for all these purposes was under study.65

Several accounts of this meeting agree that the President stated his intention to use the full resources of the federal government to avoid another 1929.66 Secretary Humphrey told Burns, "We must not let this happen; you must tell us what to do."67 On the one hand, Humphrey approved of Burns' statement and noted that the credit easing operations of the Treasury and the Federal Reserve would continue for several months. But, on the other hand, he stated that due to the economy's recent record high level, the only way for the economy to go was down. While

65Ibid., pp. 210-211; Holmans, op. cit., p. 216.
66See, for example, Adams, op. cit., p. 163; Donovan, op. cit., p. 211.
67Flash, op. cit., p. 115.
few readjustments were not to be feared, Humphrey added, employment could decline for six or seven months without being critical. Concerned with the psychological reaction of business, Vice-President Nixon suggested that the business community be kept well informed on stable economic conditions and on the Administration's determination to maintain stability. Also concerned with confidence, as he was to be throughout the recession, was the President who favorably received a suggestion from the Secretaries of Agriculture and of Health, Education and Welfare that he address the nation on television and radio and stress the stability of the economy.

A recession was first mentioned at a Presidential news conference on November 18, 1953, at which time the President publicly restated the sentiments he had expressed at the September 25, 1953, cabinet meeting.

When it becomes clear that the Government has to step in, as far as I am concerned, the full power of Government, of Government credit, and of everything the Government has will move in to see that there is no widespread unemployment.  .  .  .

Throughout the recession, Eisenhower's public stance was to dampen those whom he regarded as alarmist and to attempt to create confidence.

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68 Donovan, op. cit., p. 211.  
69 Ibid.  
70 Sundquist, op. cit., p. 17.  
71 Ibid., pp. 18-19.
While some individuals and agencies within the Administration were concerned with a possible recession and countercyclical moves, the Administration was, at the same time, pursuing a restrictive budgetary policy in preparing the budget for fiscal 1955. A memorandum from Budget Director Joseph Dodge in early November, 1953, served, once Eisenhower had approved it, as a guide for economizing throughout government. According to this memorandum, both appropriations and expenditures for fiscal 1955 "must be reduced substantially below those for the 1954 fiscal year."\(^{72}\) The Eisenhower budget, as submitted in January, 1954, contained no provision for the use of federal expenditures to deal with the recession. Rather, the emphasis was on reduction in expenditures, mostly for defense.\(^{73}\)

**1954 Economic Report: Optimism and reassurance**

The 1954 *Economic Report of the President*, submitted in January of that year, may be viewed as a vehicle used by the Administration to help define the issue with respect to the recession. This report was discussed in the January 15,

\(^{72}\)Eisenhower, *op. cit.*, p. 296. The memorandum further stated that the criterion for including programs in the budget was "necessity rather than desirability." It also stated that cuts would have to be made on the basis of expected improvements in operating procedures and claimed that such cuts would stimulate these improvements, if they were not already underway. Ibid.

\(^{73}\)Holmans, *op. cit.*, p. 217.
1954, cabinet meeting, at which time Secretary Humphrey stated that prosperity depended more on the confidence of all the people rather than on any governmental activity other than that which removes all impediments to individual initiative. In response, the President said he "wanted to avoid false expressions of confidence, and yet to refrain from suggesting that the federal government was powerless to act to strengthen the economy." In Eisenhower's view, the 1954 Report expressed the Administration's determination to do everything necessary to stop a downturn from becoming severe, to act flexibly, to use "all weapons in the federal arsenal" and to maintain confidence in the economy.

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74 Donovan, op. cit., p. 213. Secretary of State John Foster Dulles also stressed the necessity of creating public confidence by demonstrating that the Administration knew where it was and where it was going. Ibid.

75 Eisenhower, op. cit., p. 305.

76 Ibid. Eisenhower said of the contents of the 1954 Report: "The report set forth our determination to move swiftly with preventive action to arrest the downturn before it might become severe; to avoid a doctrinaire position; to do everything possible to stimulate consumers to spend more money and businessmen to create more jobs; to use wisely, and if necessary, any and all weapons in the federal arsenal; including changes in monetary and credit policy, modification of the tax structure, and a speed-up in the construction of useful and previously surveyed public works, to deal with particular instances of economic hardship as they might arise; and to maintain a steady, unshakable public confidence in the capacity of the American economy for continued growth. Confidence, we believed, was as real as a gang plow or a blast furnace." Ibid.
In the 1954 *Economic Report* and his accompanying letter of transmittal to Congress, the President provided an optimistic review of 1953, terming it "very prosperous, with record output, widely distributed incomes, very little unemployment, and prices stable on the average." The President's letter described the second half of 1953 as having a "slight contraction in business leading to unemployment in some localities," attributable mainly to a decline in spending for additions to inventories. The Report noted that unemployment had declined in October, 1953, to 1.8 per cent, which it asserted was the lowest recorded level since the end of World War II. Admitting that employment in January, 1954, was "somewhat lower than January, 1953," the President attributed this to the fact that the Korean War was no longer being fought.

The 1954 *Economic Report* attributed the contraction during 1953 to "an imbalance between production and sales." The Report offered four reasons for this "imbalance." First, inventory requirements were met early in 1953. Second, demand was not as high as businessmen had expected. Third, consumer spending moved to services

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78 Ibid.
79 Ibid., p. 49.
80 Ibid., p. iv.
81 Ibid., p. 20.
rather than commodities. Fourth, changes in the defense program had an impact. The decline in inventory additions was described as having been so far "largely a corrective movement, designed to bring production into better balance with sales." The Report also claimed that aside from defense industries, inventory adjustments were responses to current sales and not protective movements anticipating unfavorable future sales levels, but warned that inventory adjustments can affect other kinds of spending.

The Administration also defended actions taken in early 1953 to counter inflation, which it wrote was a danger at that time. If credit had not been restrained in early 1953, prices would have risen even higher. While admitting that the restrictive monetary and debt management policies of early 1953 were more potent than anticipated, the Administration maintained that this powerful impact was not due to the policies, themselves, but to the members of the business and financial community, who had forgotten

82Ibid., pp. 21-22. 83Ibid., p. 22.

84Ibid., p. 48. The Report referred to the following actions aimed at preventing inflation: (1) the Federal Reserve's January, 1953, increase in the discount rate from 1.75 per cent to 2 per cent; (2) the Treasury's attempt to obtain money to finance the government from investors rather than bankers; and (3) the May 20, 1953, Presidential Message which recommended the extension of the excess profits tax from June 30, 1953, to January 1, 1954. Ibid., pp. 49-50.
that monetary policy could effectively counter inflation. 85

In his letter transmitting the 1954 Economic Report, the President pointed to several grounds for confidence in the economic outlook for 1954. Among these were the following: the tax cuts of January 1, 1954; businessmen's disposition to continue planned capital outlays despite the mild contraction; a continuing good market for housing; the expectation of a continued rise in state and local spending; the ability of credit institutions to meet the demands placed on them; and the expectation that federal expenditures "will remain a significant sustaining factor in the economy." 86 In the body of the Report, the Administration pointed to the automatic stabilizers--social security and unemployment compensation, individual and corporate income taxes, and agricultural price supports--as a further cause for confidence. 87 Finding that the economy is "basically strong," and that "the current economic readjustment seems likely to be brief and self-correcting," the Report also contended that the "situation must not be viewed with complacency." 88

In the letter of transmittal, the President recognized a continuous governmental responsibility for the

85Ibid., p. 50. 86Ibid., pp. iv-v. 87Ibid., p. 72. 88Ibid., p. 75.
state of the economy and the Report, itself, emphasized the government's willingness to take steps to counter recessionary or inflationary trends. The Report referred first to the role of the automatic stabilizers and second, in a widely cited passage, to the "arsenal of weapons" available to the government.

The arsenal of weapons at the disposal of the Government is very formidable. It implies credit controls administered by the Federal Reserve System, debt management techniques of the Treasury, and the authority of the President to vary the terms of mortgages carrying Federal insurance, apart from the wide extension of authority recommended in this report. It includes the administration of the budget, which permits more flexibility than is commonly appreciated, quite apart from new legislation or new appropriations by the Congress. It includes other areas of action, such as taxation, public works, accelerated depreciation for defense plants, and the newly recommended agricultural supports. And if the power possessed by the Executive should need to be increased to cope with some new economic development, the Administration will promptly seek from Congress the additional authority that it requires.90

The Administration stressed it would act promptly if conditions so demanded.91

89The President wrote: "Government must use its vast power to help maintain employment and purchasing power as well as to maintain reasonable stable prices.

"Government must be alert and sensitive to economic developments, including its own myriad activities. It must be prepared to take preventive as well as remedial action; and it must be ready to cope with new situations as they arise. This is not a start-and-stop responsibility, but a continuous one." Ibid., pp. iii-iv.

90Ibid., p. 112.

91The Report stated: "The Government will not hesitate to make greater use of monetary, debt management, and credit policy, including liberalization of Federal insurance of private obligations, or to modify the tax structure,
Continual Reassessment

Throughout the spring of 1954, the Administration engaged in a continual assessment of the seriousness of the economic situation and of appropriate governmental responses. In general, Secretary Humphrey seemed less alarmed and less willing to take action than the President or Burns. At the March 12, 1954, cabinet meeting, the President was very concerned because unemployment had reached 5.8 per cent (the peak level, although, of course, the Administration could not know this at the time). He stated that the immediate need was to determine what should be done about unemployment and when it should be

or to reduce taxes, or to expand on a large scale the construction of useful public works, or to take any other steps that may be necessary. The Government must and will be ready to deal with any contingencies that may arise." Ibid., p. 113. The 1954 Economic Report also included the Administration's suggestions to strengthen the economy. Included in a category of proposals "to protect and promote economic stability" were the following: (1) modernization of unemployment compensation; (2) broadening the Social Security base and benefits; (3) permitting a larger "carry-back" of losses for tax purposes; (4) grant of broad discretionary authority to the executive to alter, within limits, the terms of governmentally insured loans and mortgages; (5) improvements in planning of public works. Under a second group of proposals, headed "action to stimulate the expansive powers of individual initiative" are the following: (1) tax law revision designed to increase inventories and to remove certain impediments to business, especially small business; (2) improvement of credit facilities for home building, modernization and urban renewal; (3) strengthening highway system; and (4) facilitating adjustments of farming to current conditions of demand and technology. The Report states these are not emergency measures because such are not called for. Rather they are measures that contribute to continued economic growth. Ibid., pp. v, 75-76.
Secretary Humphrey, who remained cool, noted Senator Paul Douglas' statement that drastic action should not be taken until unemployment reached 6-8 per cent. Eisenhower replied that "timely action . . . would forestall the need for drastic action." Humphrey also advised against any radical action that could not be easily shut off. In his view, business retardation was due to uncertainty about the tax revision bill before Congress. He thought the Administration should wait until April or May before any "extraordinary" action was taken. Believing that unemployment was inevitable when government expenditures declined, he believed that adverse reactions were being kept to a minimum. Harold Stassen proposed immediate action on several lesser measures, such as lowering the interest rate on new houses. This could be slowed if unemployment declined. Arthur Flemming was in general agreement with Humphrey, but suggested the initiation of a program to build tankers. Sinclair Weeks thought this suggestion might be a good idea. At the end of this meeting, the President asked Chairman Burns to be present at subsequent weekly cabinet meetings to summarize economic developments and report on needed governmental action.94

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For the Administration's definition of the seriousness of the situation, this was a most crucial period.

Eisenhower reports that at the next weekly cabinet meeting, March 19, there was the "heartening news" of a lengthening work week and signs that the increase in unemployment was coming to an end. Stassen argued that the confidence of financial circles, as evidenced by the steady stock market, was based on the view that the government would act when the time for action had come; he felt that the time had arrived. Burns agreed with his analysis of the reasons for confidence in financial circles, but Humphrey disagreed, attributing such confidence to the view, held in those circles, that the government would follow sound fiscal policies. President Eisenhower said he wanted his Administration to take action to head off the Democrats and he urged Burns to expedite CEA studies. Vice-President Nixon agreed that anything constructive should be done at that time rather than several months later. Even Secretary Humphrey agreed that the projects the Administration would eventually undertake might well be started immediately. At a press conference a few days later, Eisenhower stated that the time had not yet come when a "slam-bang" emergency program was needed.

95 Eisenhower, op. cit., p. 305.
96 Donovan, op. cit., p. 217. 97 Ibid.
Optimism in late spring

According to Eisenhower's memoirs, Arthur Burns showed increasing optimism during April and May and in June reported "clear evidence that recovery was underway." Yet, Eisenhower remained concerned about the state of the economy throughout these months. For example, at the April 9 cabinet meeting, while Burns reported a poor industrial situation but also a strong financial situation and cautiously predicted a general advance and Secretary Humphrey read testimony he had given two days earlier concerning what the Administration had done to cope with the recession (such as proposals for enlarging the highway program, expanding Social Security and unemployment compensation, revising tax laws, and altering the terms of government insured loans and mortgages), the President stated that the Administration's position should be to resolve uncertainty in favor of action rather than inaction. And while Burns was hopeful at the April 30 cabinet meeting, the President told the cabinet that public works should be viewed as investments in future economic strength and not as expenditures.

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98 Eisenhower, op. cit., p. 306.
100 Ibid., p. 219.
Towards the end of spring, a concern with budgetary restrictions was apparent in some agencies of the Administration. For example, at the May 21, 1954, cabinet meeting, Rowland R. Hughes, who had succeeded Dodge as Budget Bureau Director, said little further reduction was possible in nonsecurity programs. The President stated that he had not promised a balanced budget by any particular date. Burns expressed the view that the Democrats could use as a campaign issue the fact that, under Truman, the economy had expanded while the size of the debt remained relatively unchanged. Astonished at this statement, Eisenhower said that Truman was able to do this only by neglecting national security. Burns also reported that the number of increases in orders and production had surpassed decreases for the third consecutive month and that the economy might be swinging into an upturn.101

At the June 4 cabinet meeting, Burns reported a slight increase in the length of the work week in May over April. But the President was still concerned with whether the Administration was doing enough and instructed Burns to prepare a report to the cabinet on what additional steps the Administration could take.102 At the June 11 cabinet meeting, Burns presented definite evidence that a recovery was underway, but admitted a possibility that it might

101Ibid., p. 220. 102Ibid., p. 221.
fizzle out. He recommended a number of measures stressing housing, building, interest rates, and highway construction. Eisenhower repeatedly urged that what had to be done be done immediately and asked department heads affected by Burns' proposals to report what they were doing at the next cabinet meeting. According to Donovan, "This marked the end of the urgency in the cabinet over the recession." 103

At the July 23, 1954, cabinet meeting, Donovan reports a note of elation when Burns reported that economic indicators definitely showed that the decline had come to an end. 104 The cabinet then turned to a discussion of the upcoming Congressional elections and of how the Administration could make clear to the public that the economic decline had come to an end. Burns added that he was pleased that the transition from war to peace did not involve any greater economic decline. 105

103 Ibid.
104 Ibid., p. 222; Eisenhower, op. cit., p. 306.
105 Donovan, op. cit., p. 222. From his memoirs, it is clear that Eisenhower believed he acted properly during the recession, refusing to panic, and opposing massive federal intervention and an increase in individual income tax exemptions. He claimed that monetary policy could be an effective countercyclical measure so long as consumers and businessmen retained confidence in the future. He also pointed to the usefulness of automatic stabilizers, such as unemployment compensation, and the income tax system in checking the recession. Eisenhower, op. cit., pp. 305-307. He also points out that, unlike the 1930's, his Administration did not increase taxes during recovery. Ibid., pp. 487-488. He regards it as an accomplishment that
Formulation

Tax proposals scheduled for consideration during 1954

Prior to the onset of the recession, several tax measures enacted during the Korean War had been scheduled to expire and a tax reform proposal had been expected. While these items had not originally been formulated as anti-recessionary measures, the fact that they had been previously scheduled for consideration meant that they could become anti-recessionary measures should the participants in the policy process decide to formulate them as such.

The January 1, 1954, scheduled income tax reduction and excess profits tax expiration

A $5 billion tax cut was scheduled to occur on January 1, 1954, as a result of the expiration of two tax provisions enacted during the Korean War—the temporary income tax increase and the excess profits tax. But, because of a $1.3 billion increase in social security taxes scheduled to take effect on the same date, the net tax reduction resulting from these tax changes would be $3.7 billion.

country moved from war to peace without a depression and believes the Democrats were unfair to attack his Administration for "knots of unemployment" during the 1954 Congressional elections. Ibid., pp. 307, 437.
The excess profits tax had originally been scheduled to expire on July 1, 1953, but was extended for six months until January 1, 1954, upon the request of the Administration in an effort to ease the budget deficit. Affirmative action by both Congress and the President would have been required to prevent these January 1 reductions from taking place. The timing of these reductions was fortunate, for, as Flash points out, while not originally scheduled as countercyclical measures, they, nevertheless, had such an unintended effect.106

The Administration claimed that its decision to make no effort to prevent these reductions from occurring as scheduled, which was announced September 22, 1953, by Secretary Humphrey in a speech to the American Bankers Association, constituted a deliberate act of policy to counter recessionary trends. The Administration chose to interpret these reductions as an anti-recessionary measure. In his speech, Secretary Humphrey tried to build confidence in the economy and in the Administration's ability to cope with the threat of recession.107 He neither advocated

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107 Humphrey stated: "I can assure you that this government is dedicated to the maintenance of a high level of employment and production and it will pursue policies to foster that end." Holmans, op. cit., p. 214.
compensatory fiscal policy nor did he make tax reduction dependent on a budget surplus, but suggested that taxes could be cut as expenditures were being cut, in order to permit private spending to take up the slack in demand caused by the reduction in public spending.\textsuperscript{108} Reflecting the confidence bolstering theme, Burns wrote that Humphrey's announcement, which was made at a time when unemployment was reported as less than 2.5 per cent, "removed any doubts about early tax cuts."\textsuperscript{109} He also claims to have persuaded Humphrey, who had wanted to leave open the possibility of continuing the taxes if that became necessary or desirable, to make the announcement when he did.\textsuperscript{110} Regarding these tax cuts, Eisenhower wrote that "the anticipated savings in 1955 budget expenditures justified our reducing taxes." But he also added a countercyclical consideration:

As early as September 1953, I had decided that because the danger of immediate inflation had given way to the possibility of recession, the administration would not oppose the tax reductions already scheduled to take effect on next New Year's Day. So, with the

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\textsuperscript{108}The 1954 Economic Report calls Humphrey's statement a confidence bolstering announcement made at a time when the danger of inflation had passed and when it was clear that a reduction in federal expenditures would justify a reduction in taxes. Economic Report of the President, January, 1954, p. 52.
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\textsuperscript{109}Burns, op. cit., pp. 30-31.
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\textsuperscript{110}Burns stated, "... I persuaded him to come out with solid assurances to the business community that the cuts would go through as scheduled. It was a necessary psychological move to gain confidence against recessionary developments." Flash, op. cit., p. 115.
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administration's approval, the Korean War emergency increase in individual income taxes and the wartime excess-profits tax expired in January 1954.  

Many writers maintain that the Administration had no real choices in these matters, since it would have been politically impossible, except perhaps under conditions of severe inflation, to have prevented these reductions. But the question of the degree of discretion available to the Administration in deciding whether to try to prevent these reductions is really irrelevant to our concern with the formulation of anti-recessionary policies. The Administration did seize upon these scheduled reductions and formulated them as part of its anti-recessionary program. Burns and the President were apparently responsible for taking the initiative in formulating these reductions as part of an anti-recessionary program and met opposition,


112See, for example, Flash, op. cit., p. 161. Holmans, op. cit., p. 215; and Donovan, op. cit., p. 210. Holmans points out that the President's May 20, 1953, Message to Congress, in which he requested a six-months extension in the excess-profits tax beyond July 1, expressed the hope that it would be possible to take effect as planned (p. 204). Brown argues that Humphrey said nothing in his September 22, 1953, speech that was new when compared to what was said in this Presidential Message or in his previous Congressional testimony. Freeman, op. cit., p. 108.

113It would have been relevant to our concern, of course, if the Administration had not decided to formulate these reductions as a counter-recessionary measure, but still permitted the reductions to take place, or if it had, for some reason, actually tried to prevent these reductions from taking place.
initially, at least from Secretary Humphrey, who, nevertheless, was the one to make the public announcement of the decision. Formulation in this instance came from the member of the Administration who was charged with economic intelligence and from the President, who was perhaps sensitive to the political consequences of any recession and was anxious to avoid them.

The scheduled April 1, 1954, expiration of increase in rates of excise and corporate profits taxes

In contrast to its action with respect to the January 1, 1954, reductions, the Administration did not seize the opportunity to formulate the April 1 scheduled reductions as an appropriate anti-recessionary measure. Rather, in the 1954 State of the Union and Budget Messages, the Administration supported the continuation of the existing excise and corporation tax rates.\footnote{Holmans, op. cit., p. 220.} Prior to these Messages, in a December, 1953, meeting with the President and Republican Congressional leaders, Secretary Humphrey had recommended a postponement in the April 1 reductions. He argued that the country was too dependent on income taxes in case of a depression and that greater stability would be achieved by greater reliance on excise taxes. So, he
recommended a 5 per cent excise tax on everything but food, a proposal that was greeted with astonishment by the Republican Congressional leaders present.\(^{115}\)

Despite this initial Administration opposition to tax reduction, there was strong support in Congress and the public, particularly among Democrats and union leaders, for drastic tax reduction. In addition, the Joint Economic Committee unanimously reported that they expected the President to recommend an excise and income tax reduction if the recession worsened.\(^{116}\)

Almost immediately, the Administration's proposal to continue the existing excise tax rates encountered opposition from Republicans in Congress. The initial step in formulating excise tax reduction as an anti-recessionary measure came from the Republicans on the Ways and Means Committee. Chairman Reed of the Ways and Means Committee declared that tax reduction was necessary in order to increase consumer purchasing power and to encourage industry. In this he was supported by his Republican colleagues on the committee. And on January 27, 1954, House Speaker Joe Martin endorsed an excise tax reduction plan put forth by a senior Republican on Ways and Means, Representative Simpson.\(^{117}\)

\(^{115}\)Donovan, op. cit., p. 225  
\(^{116}\)Holmans, op. cit., p. 220.  
\(^{117}\)Ibid.
The Simpson bill (H.R. 8224) would have reduced to 10 per cent all excise tax rates above that level, except those on liquor and tobacco. Rates on liquor and tobacco, imposed by the Revenue Act of 1951, and other increases that did not raise rates above the 10 per cent level (the most important of which was the tax on automobiles) would have been maintained. Despite continued Administration opposition to the reductions contained in H.R. 8224, the Ways and Means Committee approved the bill in March, 1954, with reductions totaling approximately $912 million. In reporting the bill, the Committee placed great stress on the argument that tax reduction would stimulate production and employment. And on the floor, the majority argued for passage on two grounds--the general desirability of tax reduction and the contribution tax reduction would make to overcoming the recession.\(^{118}\)

In order to avoid the scheduled April 1 expiration of the excise tax and to postpone the reduction in corporate income taxes, the Administration had to choose between the Simpson plan and the proposal of Democratic Senator Walter

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\(^{118}\)In a television interview on February 28, 1954, Secretary Humphrey approved "selective" reductions in excise taxes, but through other channels, the Administration seemed to indicate that movies and furs were most deserving of this relief. Ibid., p. 221. And in testimony before the Ways and Means Committee on March 2, Secretary Humphrey opposed the cuts contained in the Simpson bill. Freeman, op. cit., p. 169.

\(^{119}\)Holmans, op. cit., pp. 220-221.
F. George to increase the personal exemption from $600 to $800 in 1954 and to $1000 in 1955. To the Administration, the Simpson plan was clearly preferable to the George proposal because it would mean a smaller increase in the deficit, make the Administration's tax reform proposals more acceptable, and benefit consumer purchasing power. Humphrey was anxious to avoid increasing the exemption and the deficits that he feared if George's plan were adopted. Burns favored the Simpson plan over the George plan because of countercyclical reasons as well as a desire not to erode the tax base. He believed that the originally scheduled April 1 cut of $3 billion would have been excessive, but that the reduction of approximately $1 billion contained in the Simpson bill would be helpful. In his March 15, 1954, broadcast, the President opposed any reduction in personal income tax but was silent on the excise tax cut. The Administration finally accepted the tax cut and at least some members did so for countercyclical reasons. The Administration's original position favoring continuation of existing excise rates was perhaps responsible for the fact that the excises were only reduced and not totally eliminated. While the Ways and Means Committee formulated the Simpson bill as an anti-recessionary measure, the

120 Flash, op. cit., pp. 149-150.
121 Holmans, op. cit., p. 223.
Administration ultimately accepted such a formulation and its initial opposition to reducing excise taxes may have had some influence on the contents of the Simpson bill.

The Administration's proposed revisions in the Internal Revenue Code

The third tax measure scheduled to come before Congress in 1954 was a revision of the Internal Revenue Code. The Administration's proposed changes were the result of discussions between Treasury and Congressional tax experts that had been taking place since 1952.\textsuperscript{122} Within the Administration, in accordance with tradition and expertise, the Treasury Department took the lead in drawing up the tax reform proposals with the CEA playing an essentially supporting role. But, as Flash points out, Burns agreed with the program and so needed only to support it.\textsuperscript{123}

The accelerated depreciation allowance and dividend exclusion and credit provisions of the Administration's tax reform program accounted for two-thirds of the tax reduction contemplated by the reform program.\textsuperscript{124} The depreciation allowance provision permitted the taxpayer to use either the "sum of years digits" method or declining

\textsuperscript{122}Ibid., p. 219; Flash, \textit{op. cit.}, p. 123.

\textsuperscript{123}Flash, \textit{op. cit.}, p. 123.

\textsuperscript{124}Ibid., pp. 120-121.
balance at double rates. The President's dividend credit recommendation proposed: (1) the exemption from taxes in 1954 of the first $50 of personal income from dividends and the exemption of the first $100 in subsequent years; and (2) the deduction from an individual's tax liability during the first year of 5 per cent of his income derived from dividends, of 10 per cent in the second year, and of 15 per cent in subsequent years. The Administration believed that these provisions favoring investment would aid long-term economic growth. As reported by the Ways and Means Committee, the tax reform bill (H.R. 8300) generally followed the Administration's recommendations except for the dividend credit against tax liability, which it limited to 10 per cent.

As in the case of the excise tax bill, with this measure also, the Administration faced a Democratic alternative of an increase in the personal income tax exemption. The Administration favored tax concessions aimed at direct stimulation of investment and feared that a large tax reduction would entail too great a risk of inflation. However, Democrats and union leaders viewed the Administration's tax proposals as inequitable and favoring only

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125 Holmans, op. cit., p. 230.
126 Flash, op. cit., p. 120.
127 Holmans, op. cit., p. 230.
corporations. The Democrats argued that the recession was caused by a deficiency of demand, particularly consumer demand, and favored an increase in the individual exemption to stimulate consumer demand.\textsuperscript{128}

The Administration's planning of a public works program

Throughout the recession, the Administration was concerned with planning a public works program, but reluctant to invoke such a program, which it regarded as a weapon of "last resort." For example, Burns viewed a large scale public works program as useful only as a "last resort" because of the long time required for public works projects to take effect. Yet, in the spring of 1953, he was also interested in planning public works projects in anticipation of a possible downturn.\textsuperscript{129}

The CEA and Budget Bureau were engaged in the early stages of planning of a public works program throughout 1953. Early that year, the CEA was told to prepare plans for dealing with a depression, even though none was in sight. One CEA proposal was to have public works plans prepared and classified by cost and desirability so they

\textsuperscript{128}Ibid., pp. 220, 227.

\textsuperscript{129}Flash, op. cit., pp. 143-144. Flash reports that when Burns arrived in Washington, he hired an expert in the field of public works, Robinson Newcomb.
could be flexibly applied if needed. The Budget Bureau's July 9, 1953, communication to agency heads, previously mentioned, also reflected a concern with public works planning. A task force (which included three Council experts) devoted to planning public works was established in September, 1953. Testifying before the Joint Economic Committee on the Economic Report in February, 1954, Assistant Budget Director Rowland Hughes referred to a Budget Bureau study on public works and flexibility in the budget, prepared the previous summer, at the CEA's request. He added that "we have also and are cooperating actively with the Economic Council in their analysis and preparation of the projects which are good and which should be left on the shelf, so to speak." Planning for public works occurred in the Bureau of Reclamation, Bureau of Public Roads, and the state highway departments. In addition, a public works coordinator was appointed to the staff of the CEA to keep check on public works programs of federal agencies and of state and local governments. Finally, Adams reports that as unemployment rose in Autumn and Winter of 1953, talk in the cabinet about balancing the


131 Flash, op. cit., p. 144.

132 Holmans, op. cit., p. 235.
budget declined and the President and Humphrey turned their attention to Burns' proposal for planning a public works program.\textsuperscript{133}

During the winter and spring of 1954, the Administration continued its preparation of possible public works projects even to the extent of setting a deadline for action. Yet, it maintained its resistance to what it viewed as hasty action and in the end decided it was able to avoid implementing such a program. At a February, 1954, cabinet meeting, the President reported that he had asked Burns to coordinate reports from various departments and agencies on their plans for public works. The President stressed that advanced planning was necessary in this area if public works projects were to have the immediate effect, when implemented, of putting unemployed men to work. He stated that such projects were to be intrinsically valuable to national development and not just "make work" projects. At the meeting, the President set July 1, 1954, as the tentative deadline for the government being prepared to act on public works projects.\textsuperscript{134} He added that he was ready to ask Congress for a supplemental appropriation for a few immediate projects if any cabinet member so

\textsuperscript{133}Adams, op. cit., p. 164.

\textsuperscript{134}Donovan, op. cit., p. 213. Holmans points out that the decline had ended well before the tentative deadline. Holmans, op. cit., p. 235.
recommended. While Secretary McKay suggested it might be a good idea to initiate several power projects, Donovan does not report what became of this suggestion. As a public works project, Eisenhower suggested toll roads and governmental guarantee of the bonds. Secretary Mitchell was concerned about doing something to check the growing unemployment in the Northwest. Even Secretary of the Treasury Humphrey admitted that a broad program of public works would be desirable if operations then in progress did not succeed in stemming the recession, although he believed that these other measures might succeed.\(^{135}\) And during February, March, and April, the Council continued with public works plans that might be necessary and added a public works planning group to the Council's staff upon Burns' suggestion.\(^{136}\)

As early as the March 19, 1954, cabinet meeting, the cabinet became less inclined to go along with public works as Burns' reports on economic trends became more encouraging, even though employment lagged behind the favorable trends.\(^{137}\) It was at a news conference a few days later

\(^{135}\)Donovan, *op. cit.*, p. 214.

\(^{136}\)Flash, *op. cit.*, p. 146. Flash writes: "Starting in April, John S. Bragdon and later, George A. Denning devoted full time to perfecting public works plans for projects at both federal and state levels. Their operation subsequently developed into the Office of Public Works and was housed in the White House."

\(^{137}\)Ibid., p. 147.
that the President expressed his opposition to a "slam-bang" public works program. 138

As Flash makes clear, the Administration had "little real disposition . . . to bring public works out from the anti-recessionary arsenal." 139 The Administration planned but did not move to the prescription or implementation stage. The appearance of hopeful economic signs decreased the chances for invoking a public works program, which had always been regarded within the Administration as a weapon of last resort. However, the psychological impact of the knowledge that the government had a plan for public works that it was willing to implement if necessary should not be ignored. 140

Monetary policy

Monetary policy played an important part in the Administration's response to the 1953-54 recession. Because of its legally autonomous position, the Federal Reserve played the largest role in the actual formulation of this kind of policy. The process of formulating and implementing this policy was a continuous one which the Federal Reserve engaged in throughout the recession. Yet, granting the Federal Reserve's primacy in formulating such policy,

138 Holmans, op. cit., p. 235.
139 Flash, op. cit., p. 146.
140 Ibid.
there is a sense in which the Administration can be said to have "formulated" monetary policy as an anti-recessionary measure to the extent that it decided to rely on monetary policy to counter the recession, aware that the Federal Reserve would formulate the specific contents of such a policy. Once such a decision is made, the Administration (1) may seek to influence the Board to formulate a certain type of policy, or (2) it may adapt its own anti-recessionary measures to the Board's announced or anticipated policies, or (3) it may engage in both types of behavior. Finally, the Administration can more directly formulate credit policy through VA and FHA housing credit.

The Federal Reserve pursued a restrictive monetary policy in the early months of 1953. While the Board's policy (through open market purchases in May and June) became less restrictive before the onset of the recession, there is some dispute as to whether this change was due to a Federal Reserve forecast of an economic downturn or to "unsettled conditions" in the financial market. But once the recession was underway, the Board followed a policy of

monetary ease and then of "active ease."  

In addition to the May and June, 1953, open market purchases, the Federal Reserve Board formulated several policies to ease credit. In July, the Board reduced the reserve requirements of member banks and in September, October, and December it carried out further open market purchases. In February, 1954, the Board lowered the discount rate from 2 per cent to 1.75 per cent and in April, it lowered it further to 1.5 per cent. In June, 1954, the Board reduced reserve requirements from 22 per cent to 20 per cent for demand deposits of central reserve banks, from

142 Holmans reports that the Federal Reserve's policy became steadily more liberal well before the recession began and, once the recession got underway, the Board pursued a policy of "active ease." He also points to the effectiveness of monetary policy in this regard, particularly in stimulating housing construction. Holmans, op. cit., pp. 224-226. Flash also reports a Federal Reserve Board policy of credit relaxation that began with open market purchases in May and June, 1953, and continued for more than a year. He implies that these early actions were taken to "ease tensions in the financial markets," but stresses the importance to recovery of the Federal Reserve's actions, noting also its impact on home building. "With the exception of action taken in May, June and July, 1953, to ease tension in the financial markets, the Federal Reserve's steps to ease credit appear to have constituted the most important series of measures adopted consciously for countercyclical purposes." Flash, op. cit., pp. 150-151. Finally, Hickman believes the reversal in monetary policy at least two months before the July, 1953, peak in the business cycle was prompted more by "unsettled conditions" in the financial markets than by a forecast of a downturn. On the other hand, he does refer to a June 11, 1953, statement by the Open Market Committee noting that "an undertone of concern about potential declines in economic activity" had been present since March. Hickman, op. cit., p. 340.
19 per cent to 18 per cent for those of reserve city banks, and from 13 per cent to 12 per cent for those of county banks. It also reduced the reserve requirements for time deposits from 6 per cent to 5 per cent in all banks. At the time, it was estimated that these reductions in reserve requirements would free about $1.5 billion of reserves and create a potential expansion in the range of $9 billion.\textsuperscript{143}

According to Hickman, the Federal Reserve shifted from a policy of "active ease" to ease on December 7, 1954. From that point on, monetary policy became increasingly tight until August 2, 1955, when the policy was defined as "restraining inflationary developments in the interest of sustainable economic growth."\textsuperscript{144}

Various agencies within the Administration attempted to cooperate with the Federal Reserve on monetary policy during the recession and some tried to influence its formulation. Cooperative relationships were maintained between

\textsuperscript{143}Flash, op. cit., pp. 150-151; Freeman, op. cit., p. 74.

\textsuperscript{144}Hickman, op. cit., p. 340. In December, 1954, the Federal Reserve curtailed its purchases of government securities and forced member banks to borrow to meet year end demands for credit and currency. Due to the continued rise in stock prices, the Board raised the margin requirement from 50 per cent to 60 per cent in January, 1955, and to 70 per cent in February. In January and February, the Board also sold $1.3 billion of bonds. It raised the discount rate in April, 1955, from 1.5 per cent to 1.75 per cent and in the late Summer and Fall, 1955, it again sold bonds. In November, 1955, it raised the discount rate to 2.5 per cent. Freeman, op. cit., p. 78.
the Treasury and the Federal Reserve. For example, the Treasury issues during this period were all medium or short terms.\textsuperscript{145} Both in personal visits and through Secretary Humphrey, Burns tried to influence Chairman Martin to relax monetary controls. In these efforts on behalf of the Administration, Flash believes that Burns had at least "a measure of success."\textsuperscript{146} He does stress, however, the pre-eminence of the Federal Reserve in monetary policy. With respect to the Council-Federal Reserve relationship, he writes that "the Council does appear to have played an essentially auxiliary role, largely limited to confirming and accelerating what the Federal Reserve itself determined to be appropriate countercyclical actions."\textsuperscript{147}

Burns submitted to the March 26, 1953, cabinet meeting a proposal to liberalize the terms of government guaranteed mortgages. He was unable to convince the Administration to accept this proposal or to ease mortgage terms at any time throughout the recession. The small amount of stimulant available to the President by virtue of the 1953 Housing Amendments, i.e., the authority to ease terms on

\textsuperscript{145}Holmans, \textit{op. cit.}, p. 224.

\textsuperscript{146}Flash, \textit{op. cit.}, p. 151. Flash notes, for example, that a week after the June 14, 1954, report that the Federal Reserve was resisting "Administration feelers" to lower rediscount rates, the Federal Reserve eased credit, albeit not by lowering rediscount rates but by reducing reserve requirements. \textit{Ibid.}

\textsuperscript{147}\textit{Ibid.}
FHA loans on houses of $12,000 or less, was not used. Burns' small amount of success in this area, administrative in nature, apparently consisted of urging HHFA and VA officials to step up their processing of loan applications and hiring more staff for these two agencies. Secretary Humphrey was apparently in large part responsible for preventing acceptance of Burns' proposals to liberalize housing credit.\textsuperscript{148}

A step-up in government spending

The Administration also formulated several administrative proposals to deal with the recession, the major one being a proposed step-up in the rate of already scheduled government expenditures.\textsuperscript{149} This measure would provide an increase in demand without an increase in the overall total of federal expenditures. The credit for initiating this

\textsuperscript{148}Ibid., p. 153.

\textsuperscript{149}Burns also lists the following "administrative" steps that reinforced major actions designed "to create an atmosphere favorable to the resumption of economic growth": Federal Reserve caution; projected government aid for hard pressed industries (mainly a new ship construction program and revised stockpiling program for zinc and lead mining); efforts to assist economically hard-hit communities (e.g., channelling government contracts to them and raising allowable rate of accelerated amortization for business that contributed to national defense); manage ordinary governmental housekeeping activities in a manner to meet immediate needs of economy (e.g., Internal Revenue send checks to taxpayer before final determination of their tax liability). Burns, \textit{op. cit.}, p. 32.
proposal should go to Burns, who, along with his public works experts had studied the idea of a step-up before the recession had gathered strength. In the summer of 1953, Burns received word from the Budget Bureau that expenditures could be increased by at least $3 billion annually by Presidential action alone. As unemployment increased in the Spring of 1954, Burns regarded a step-up in expenditures as more effective and acceptable than a large-scale public works program.

The idea of a step-up in spending was first raised at a cabinet meeting, not by Burns, but by Secretary Humphrey and Vice-President Nixon, who suggested on March 19, 1954, that federal projects already scheduled be started immediately. Eisenhower's reaction was to tell Burns to expedite work on possible courses of action. Thus, before Burns was to advance the idea of a step-up at the March 26 and April 2 cabinet meetings, others had already prepared the way.

With a continued sense of urgency prevalent at the March 26 meeting, Burns listed the following four measures that could be adopted: modification of the Federal Reserve monetary requirements; liberalization of the terms on

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150 Flash, op. cit., p. 156.
151 Ibid., p. 154.
152 Ibid., pp. 154-155.
government guaranteed mortgages; alteration of the tax depre­ciation policy; and a step-up in the rate of domestic procurement. President Eisenhower asked Chairman Burns to prepare an outline of useful legislation. Secretary Humphrey agreed the Administration should have additional measures begun. Secretary Weeks urged faster action on the tanker program, which the President endorsed.153

At the next weekly cabinet meeting, April 2, Burns stated that continuing economic troubles called for the actions he had suggested at the previous meeting. The President ordered that these suggestions be implemented, to the extent that the executive branch had the authority to do so, and warned that announcements concerning these measures should be handled carefully so as not to jolt public confidence.154

Six weeks later, at the May 14, 1954, cabinet meeting, Burns presented a plan for stepped-up expenditures for the last quarter of fiscal 1954 and the first quarter of 1955.


154Ibid., pp. 217-218. Eisenhower's account of the April 2, 1954, cabinet meeting differs from that of Donovan. Eisenhower reports that Burns listed additional measures the government could take: credit ease by Federal Reserve; Internal Revenue mail tax refund as soon as returns filed; and consultation between executive branch agencies and the states on public works acceleration. Eisenhower reports that he ordered the second two, but not the first because "the Executive branch did not control the independent Federal Reserve Board." Eisenhower, op. cit., p. 306.
fiscal 1955. He pointed to the appropriateness of the program, in view of the normal temporary decline in the summer, and also to the fact that it would not increase the total amount of governmental expenditures.\textsuperscript{155}

**Communications**

As used with reference to the 1954 recession, communications refers to the creation of interest in the problem of the recession and/or in the various proposals that were advanced to deal with the recession. Certain communications may have as their intended audience primarily groups inside the Administration while other communications may be directed primarily at groups outside the Administration. Within the Administration, the function of communications was performed, in large part, by the CEA and its Chairman, Arthur F. Burns, particularly by means of his regular meetings with the President and the cabinet and through ABEGS.\textsuperscript{156}

Until his heart attack in September, 1955, the President and Burns met regularly each Monday, with Gabriel Hauge in attendance. While not the only contact between the President and Burns, these meetings provided the opportunity to brief the President on current economic developments and to increase his grasp of economic affairs.\textsuperscript{157}

\textsuperscript{155}Flash, op. cit., p. 155.

\textsuperscript{156}Ibid., p. 160.  \textsuperscript{157}Ibid., pp. 168-169.
They also provided Burns with the opportunity to discuss possible responses to the recession with the President. Throughout the recession the President treated Burns as a trusted, personal adviser, although with regard to the President's personal and institutional dependence, he could not compete with Humphrey.158

Burns could use the cabinet meetings and ABEGS to communicate with the other departments and agencies in the executive branch. Numerous cases have already been cited in which Burns used cabinet meetings to convey information about the recession and about possible Administration responses. During the recession, ABEGS generally met weekly. In addition to Burns' use (as previously noted) of ABEGS as a means to prepare sub-cabinet officials for countercyclical measures, ABEGS served as Burns' line of intelligence to the agencies. ABEGS' task forces served as an extension of these lines of intelligence. ABEGS also provided agencies with a broader appreciation of the economic impact of their policies.159

158Ibid., p. 163.

159Ibid., pp. 170-171. The 1954 Economic Report stated that ABEGS reviewed and coordinated economic policy and considered measures to strengthen the economy, but was essentially advisory to the Council. This provides a different view than Flash of the nature of ABEGS' function. Economic Report of the President, 1954, p. 121.
Burns' operating style made him the primary channel of communications between the Council and other governmental agencies. Contacts with other officials provided the opportunity for Burns to convey and receive information about the recession and appropriate governmental responses. In addition to contacts stemming from a common concern for economic problems on the part of Burns and other officials, Burns often lunched informally with Adams and Hauge of the White House Staff and Humphrey and Dodge and also with Chairman Martin and Undersecretary of the Treasury Marion Folsom. Burns was the only member of the CEA to speak publicly for the President and to testify before Congressional committees. Almost all of the Council-White House relations were handled through Burns. No CEA staff member dealt directly with the President or his aides. Hauge was an important part of the communications process between the White House and the Council.160

The Presidential message is a common medium for communications directed at those outside the Administration, including other participants in the policy process (e.g., Congressional leaders) as well as the general public. The 1954 Economic Report and its accompanying Presidential letter of transmission, which served to define the issue of the recession, also performed the communications function

by transmitting information about the recession and certain measures under consideration in the Administration, particularly its planning of public works. The Administration's expressions of optimism about economic conditions in 1953 and also about the conditions expected in 1954 and its expressions of readiness to take the necessary action to avoid a recession were intended to instill confidence in the economic future, but they also served to communicate information about the recession and particularly about possible counter-recessionary proposals. For example, the Report discussed at length one of the "weapons" in the Administration's anti-recessionary arsenal--public works--stressed the need for advance planning so that such a program could be effectively implemented if needed, and reassuringly explained the planning that was already underway.161

Mobilization

Mobilization refers to mobilizing support for or opposition to the various proposals that were formulated as a

161 The Report stated: "A considerable amount of advance preparation of drawings and specifications has been completed by the Federal, State and local governments, and more is under way. If it should become necessary, outlays for Federal public works could be stepped-up by one-half or more within a year. State and local outlays, which are now the highest on record, might be expanded to a similar extent, if financial arrangements were adequate." Economic Report of the President, 1954, p. 103.
response to the recession. Major efforts to build such support and opposition were required for two of the three tax measures. The general agreement among participants in the policy process that the January 1, 1954, tax cuts should occur as scheduled meant that there was little need for mobilization on this issue.

The Republican side of the Ways and Means Committee formulated the Simpson bill containing excise tax reduction as an anti-recessionary measure and reported it to the floor in spite of Administration objections to the cuts contained in the bill.\(^{162}\) Both in the committee report and in the floor arguments, the bill's proponents stressed the contribution of the tax cut to overcoming the recession.\(^{163}\) As noted in the section on formulation, the Administration accepted the Simpson bill in an effort to avoid the originally scheduled April 1, 1954, reductions and to postpone the reduction in corporate income tax.

The Administration sought to gain support for its tax reform proposals by stressing the need to stimulate investment while Democrats attempted to organize opposition by emphasizing the need to stimulate consumer demand. So, the House minority report on H.R. 3000 (the bill containing the Administration's tax reform proposals) attacked the

\(^{162}\)Holmans, op. cit., pp. 220-221.

\(^{163}\)Ibid., p. 221.
Administration's dividend credit proposals as an unjustifiable discrimination in favor of unearned income and the embodiment of the "trickle-down" approach to tax reduction, as well as the Administration's depreciation allowance provisions on the grounds that increased consumer demand would be a more effective investment inducement than alteration in the depreciation allowance.\textsuperscript{164} In support of his tax reform proposals, President Eisenhower broadcast a speech on March 15, 1954, in which he stressed the need to encourage investment and opposed the Democrats' proposal to increase the personal exemption by $400. He argued that the Democratic alternative would cost $8 billion in revenue and remove a great number of taxpayers from the income tax rolls altogether. He said:

\begin{quote}
When the time comes to cut income taxes still more, let's cut them. But I do not believe that the way to do it is to excuse millions of taxpayers from paying any income tax at all. . . . every real American is proud to carry his share of the burden. . . . I simply do not believe for one second that anyone privileged to live in this country wants someone else to pay his fair and just share of the cost of his Government.\textsuperscript{165}
\end{quote}

Since the Administration's public works program remained in the planning stage and was regarded as a weapon of last resort, there was no immediate need to mobilize support for it. Yet, although never actually implemented, the

\textsuperscript{164}Ibid., p. 230.

\textsuperscript{165}Ibid., p. 231. See also Eisenhower, \textit{op. cit.}, p. 299.
Administration did manage to mobilize support for this proposal by emphasizing that it stood ready to invoke it when and if that became necessary. This preparatory mobilization had a double impact: it established support for the public works program should it need to be invoked and it also served to instill confidence in the Administration's ability to cope with the recession. The President's discussion in the 1954 Economic Report of the arsenal of anti-recessionary weapons available to the government and of the extent of public works preparations constituted a mobilization of support behind his Administration's attempts to deal with the recession.

In addition to these generalized attempts by the Administration to build support for all the proposals in its anti-recessionary program, attempts were made to build support specifically for the Administration's monetary policy. An example of this would be Burns' attempt to persuade Chairman Martin of the Federal Reserve Board to support what he took to be the Administration's monetary policy by easing credit. However, it is significant that the President appeared to think such attempts at persuasion inappropriate, as his reaction to Burns' proposal to use monetary policy made at the April 2, 1954, cabinet meeting indicates. On the matter of Burns' proposal to ease VA and FHA housing credit, Humphrey appears to have been able to mobilize sufficient opposition to prevent the adoption of the plan.
Mobilization efforts with regard to the step-up in expenditures did not extent to Congress because this measure did not require Congressional approval. While a Burns' proposal in origin, it is also true that certain members of the Administration (e.g., Vice-President Nixon and Secretary Humphrey) anticipated certain ideas of the proposal, thereby easing Burns' task with respect to mobilization on this measure within the Administration.

In addition to the attempts to build support for the major proposals we have been studying, mobilization would also include attempts to develop opposition, for reasons of alleged inadequacies, to the Administration's response to the recession. Throughout the recession and particularly during the first half of 1954, interest group leaders, especially union leaders, and certain Democratic leaders called upon the President to take more extensive action to counter the recession, thereby attempting to mobilize opposition to the Administration proposals and to other measures under consideration. On January 13, 1954, Walter Reuther of the United Automobile Workers Union wrote the President, urging him to call a national conference on unemployment. When the President refused, Reuther announced he would call one of his own for the spring. Another union leader who questioned the adequacy of the Administration's

166 Donovan, op. cit., p. 211.
anti-recessionary program was President David MacDonald of the United Steel Workers Union, who called on Eisenhower on April 8, 1954, and urged a $5 billion public works program, a $3 billion increase in unemployment benefits and pensions, and a $4 billion cut in income taxes. The Steel Workers Convention subsequently called on the President to act vigorously.\footnote{167}{Ibid., p. 218.} At the May 11, 1954, National Full Employment Conference of CIO leaders, Walter Reuther attacked the President for "doing nothing" relevant to unemployment. Former President Harry Truman told the Convention of the Amalgamated Clothing Workers on May 13 that the Administration suffered from "creeping McKinleyism" and advocated a $3 billion increase in public works and welfare.\footnote{168}{Ibid., p. 219.} And on May 17, 1954, the AFL Executive Council charged that the President had failed to keep his promise to act at the first sign of recession.\footnote{169}{Ibid.} Within Congress, the George proposal served as a focus for mobilizing opposition to the Administration's tax proposal.

**Modification**

As applied to the 1953-54 recession, modification referred to the attempts to amend the various proposals formulated in response to the recession. Attempts were made to amend each of the tax proposals except for the
January 1, 1954, scheduled reductions, which, once formulated as an anti-recessionary measure, encountered no significant attempts at amendment.

Several attempts were made in the Senate to amend H.R. 8224, the Simpson bill containing the excise tax reductions. The Democratic attempts at amendment generally failed while Republican attempts generally succeeded. The Senate Finance Committee's minor changes resulted in a net tax loss of $46 million in comparison with the House bill.\textsuperscript{170} While endorsing the reasons given in the House Ways and Means Committee Report on the bill, the Senate Finance Committee's Report laid greater stress on the argument that taxes should be reduced whenever the budgetary situation permitted.\textsuperscript{171} On the floor, Democratic Senator Paul Douglas introduced amendments to repeal the tax on household appliances and to reduce the tax on radios and television from 10 per cent to 5 per cent and on cars from 10 per cent to 7 per cent. Douglas' amendments to reduce the tax on cars and radios and television were easily defeated, but Senator Millikan, the chairman of the Finance Committee, did not oppose Senator Capehart's amendment to reduce the tax on household appliances to 5 per cent. Offered to aid the home appliance industry which was hit by the recession and a portion of which was located in

\textsuperscript{170}Holmans, \textit{op. cit.}, p. 221. \textsuperscript{171}Ibid.
Capehart's state of Indiana, this amendment carried by 64 to 23, with many conservative Republicans supporting it.\footnote{Ibid., p. 222} Finally, an amendment to delete all tax reduction except that for admissions to entertainment, offered by Senators Byrd and Williams on behalf of supporters of a balanced budget, was defeated on a party splitting vote of 35 in favor and 54 opposed, with 16 Democrats and 18 Republicans voting yes and 25 Republicans and 29 Democrats voting no.\footnote{Ibid., p. 223}

Democrats in the Senate and House attempted to amend the Administration's proposed changes in the Internal Revenue Code contained in H.R. 8300. The Democratic proposal to increase the individual exemption received almost unanimous support from Democrats in Congress, including House Minority Leader Sam Rayburn and Senator Walter George, the senior Democrat on the Finance Committee. In the House, the motion to recommit this tax bill with instructions that the dividend credit and depreciation allowance provisions be deleted and an increase in individual exemption to $700 be inserted was rejected by a 210 to 204 vote almost along straight party lines with 8 Republicans favoring recommittal and 7 Democrats opposing it. Apparently, not all of those favoring recommittal favored the income tax reduction, since recommittal would probably have meant the end of the bill for
the session unless economic conditions deteriorated.\footnote{\textit{Ibid.}, pp. 231-232.}

In the Senate, both Republicans and Democrats attempted to amend the Internal Revenue revision bill. On June 28, 1954, during floor debate, Senator Milliken, the Finance Committee chairman, argued that the bill went part of the way in restoring normal economic incentives, and that this was important because of the decline in defense expenditures. He emphasized what had become, according to Holmans, by then obvious, that the economic decline had come to an end and hence there was no further need for tax reduction. Senator George agreed that the recession had not become as bad as he had once expected and so he proposed an increase in the personal exemption from $600 to $700 instead of to the $800 that he had earlier suggested. During floor debate, Senator Douglas stressed that the problem involved a lack of economic demand. Despite his earlier argument that no additional tax reductions were necessary, Milliken introduced an amendment to reduce each taxpayer's tax liability by $20, a proposal which would result in slightly less tax loss than the George substitute. This amendment was opposed by George and his supporters and rejected by a vote of 49-46, which reflected party lines, except that Republican Senator Langer voted with the Democrats.
Senator George's amendment to increase the individual exemption was rejected by a vote of 49 to 46 with the margin of defeat provided by four Democrats--Byrd, Robertson, Johnson of Colorado, and Holland--who voted against the motion. Thus, no general tax reduction was passed.\textsuperscript{175}

Because of opposition in the Senate to the dividend credit provision, Milliken moved to reduce the dividend credit to 5 per cent and to limit the exclusion of dividends from taxable income to $50 in all years. This was accepted by the Senate. And the amendment of Senator Johnson of Colorado to strike out the dividend credit entirely carried by a vote of 71-13. So, the Senate version of the Internal Revenue Code revision, passed on July 2, 1954, contained no provisions for tax relief on dividends other than exemption from tax of the first $50 of income derived from dividends.\textsuperscript{176}

Since the other three major proposals that were formulated either did not reach the stage requiring Congressional action or were of such a nature as not to require Congressional action, the opportunities for amendment were extremely limited. The Administration's public works planning proposal, formulated in the Executive, was never proposed to Congress, and hence, was not open to any Congressional attempts at modification. With regard to

\textsuperscript{175}Ibid., p. 233. \textsuperscript{176}Ibid.
monetary policy, neither the Democratic opposition nor the union leaders appeared to try to modify, but, rather, concentrated on its fiscal policies. On the other hand, the Administration, particularly in the form of Burns, tried to get the Federal Reserve to ease its monetary policy. Within the Administration, Humphrey appeared able to prevent the adoption of Burns' proposals regarding the easing of housing credit. Finally, Burns' proposal for a step-up in governmental expenditures required no Congressional action and encountered no major attempts at modification.

Representation

The function of representation refers to governmental or non-governmental elites representing the perceived views of their legal or political constituencies in the policy process. In the policy process during the 1953-54 recession, groups both inside and outside the Administration performed this function.

Union leaders and certain Democratic party leaders expressed the perceived views of their constituents when they urged the President to take more drastic action of a countercyclical nature than he was willing to take and when they attacked him for failing to do so. Many of the incidents mentioned in the section on mobilization also involved a leader articulating and representing the views of his constituents in the policy process. So Walter
Reuther's call in January, 1954, on the President for a national conference on unemployment and his decision to call one of his own when the President refused constituted acts of representing unemployed and potentially unemployed union members in the policy process. Similarly, the call by the President of the United Steel Workers Union for a major increase in public works and in unemployment benefits and for a cut in income taxes reflected the fact that 189,334 members of his union were out of work and 257,026 more were working short weeks. Walter Reuther's May 11, 1954, attack on Eisenhower, made during the CIO's National Full Employment Conference, for "doing nothing" relevant to unemployment and the AFL Executive Council's charge that the President failed to keep his promise to act at the first sign of a recession may also be viewed as illustrations of union leaders representing their membership in the policy process. Democratic political leaders also represented the unemployed and the potentially unemployed. For example, in February, 1954, Senator Paul Douglas wrote the President as follows:

177 Donovan, op. cit., p. 218. In his memoirs, Eisenhower reports that Steel Worker President MacDonald wanted a $5 billion housing and slum clearance program in addition to the previously mentioned demands regarding public works, unemployment benefits, and income tax cuts. The President regarded these programs as unjustifiable and dangerous. He wrote that public works projects would probably have their impact after recovery and "might have brought on severe inflation." Eisenhower, op. cit., p. 306.
A look at the present economic situation indicates, in my judgement, that the time for action is here. At least, we should take some initial effective steps to counteract the downward trend.\footnote{Flash, op. cit., p. 142.}

And former President Truman's speech to the Amalgamated Clothing Workers on May 13, 1954, already mentioned in the section on mobilization, in which he charged the Administration with "creeping McKinleyism" and advocated a $3 billion increase in public works and welfare also is an illustration of representation.

Republican Congressional leaders also performed the function of representation in the policy process. It will be recalled that prior to the onset of the recession, Republican Congressional leaders, especially Senator Taft, were pushing for expenditure cuts and a tax cut and the Eisenhower Administration was resisting. In pushing for such action, Senator Taft argued in terms of the desires of the groups that would potentially support the Republican party in the mid-term Congressional races. And other Congressional leaders, such as Chairman Reed of the Ways and Means Committee, favored a tax reduction during the summer of 1953 in the face of Administration opposition. Once the recession was more clearly under way in the winter and spring of 1954, Republican Congressional leaders reported the concern over the recession in Congress and in the nation.
to the President and continued to express their own concern over the Congressional elections.\(^{179}\) The behavior of the Republicans on the Ways and Means Committee and of the House Republican leadership on the question of excise tax reduction might also be taken as illustrative of Congressional leaders representing their constituents in the policy process.

Various participants within the Administration also represented the perceived views of their constituencies. There were differences within the Administration on the question of the economic meaning of the Eisenhower election victory. One group, including the President, apparently believed that the voters wanted a return to "sound fiscal policy" but that they also expected the government to act quickly and forthrightly to prevent a recession. Another group, whose most prominent representative was Secretary Humphrey, placed greater stress on the return to what they saw as fiscal orthodoxy and were much less ready to invoke countercyclical measures to prevent a recession. In addition to this difference over the meaning of the election mandate, one must consider the traditional role of the Treasury in representing the banking community and its concern for a sound dollar and its fear of inflation.

\(^{179}\text{Ibid.};\text{ see also Donovan, op. cit., p. 212.}\)
Prescription

As applied to the policy process during the 1953-54 recession, prescription refers to the authoritative selection of the various proposals to counter the recession. Both Congress and the President played a role in prescribing the three major tax proposals. In one sense, prescription of the January 1, 1954, tax cuts may be said to have occurred when Congress passed and the President signed the bills that originally established January 1 as the date of the expiration of these taxes. Yet, in another sense, it might be useful to think of prescription in terms of the authoritative selection of this measure as an anti-recessionary program. In this sense, prescription may be said to have occurred when the President and Burns decided to announce their agreement that the cuts should take place as scheduled and persuaded Humphrey to agree and to make the announcement.

With regard to the Simpson bill, H.R. 8224, prescription occurred when both houses accepted and the President signed the conference version, which was identical to the Senate version except for not treating movies as generously. Although originally the Administration had not favored this bill, it relented in its opposition, especially when it viewed an increase in the individual exemption to be a possible alternative. On March 29, the
President was reported to have received from his economic advisers the advice that the excise tax cut would stimulate consumption, thereby promoting recovery. On March 31, 1954, the President signed the bill "wholeheartedly" and stated his hope that the tax cut would so stimulate business as to make the actual revenue loss not as great as originally anticipated.

The Congress and the President also performed the function of prescription with regard to the Internal Revenue Code revisions. The conference committee version, which was estimated to cost approximately $1.4 billion a year in revenues, was finally approved by the House on July 28 and the Senate on July 29 and by President Eisenhower on August 16, 1954.

The proposal concerning public works never went beyond the planning stage to the prescription stage. Regarded as a last resort by most members of the Administration, including the President, the Administration never perceived the economic situation as warranting the use of such a measure.

The Federal Reserve's primacy with respect to prescribing monetary policy must be understood. Prescription

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180 Holmans, op. cit., p. 223. 181 Ibid. 182 Ibid., p. 234.
of particular monetary policies was in the hands of the Federal Reserve. Yet, it should also be understood that the Administration could be thought to have prescribed monetary policy as a response to the recession when it decided to rely on such policy as part of its anti-recessionary program. So, in this sense, the Administration may be thought to have prescribed a reliance on monetary policy as a general response to the recession while also accepting the role of the Federal Reserve in actually prescribing specific monetary policy. We have seen that the Administration had the legal authority to prescribe certain measures easing housing credit, but that it chose not to exercise its authority in this area.

The proposal to step-up government spending was prescribed by the President and required no action by Congress. When Burns presented his proposal for a step-up in governmental spending at the May 14, 1954, cabinet meeting, the President prescribed this program by directing accelerated spending for "worthwhile" projects where funds were available. However, to be excluded were projects needing legislation or supplemental appropriations and since no publicity was to be given to the step-up in spending, no requests were to be made of Congress to speed action on regular appropriations, supplementals, or enabling
legislation already requested.183

Conclusion

The Eisenhower Administration responded to the recession in a variety of ways. First, a major part of the response involved either the formulation of previously scheduled tax cuts and tax changes as countercyclical measures or the passage of a tax cut, defined in countercyclical terms, under the impetus of previously scheduled tax cuts. Second, a part of the Administration's response, i.e., public works planning, consisted of simply planning a proposal which it hoped never to have to prescribe. Part of the Administration's response to the recession involved the performance of only some of the functions of the policy process. Third, one of the proposals studied could be prescribed under the authority of the President alone, another under the authority of the Federal Reserve, while a third remained in the Presidential planning stages. It

183Flash, op. cit., p. 155. After the cabinet accepted Burns' plan for accelerated spending, the Budget Bureau prepared a report which contained a list of 45 items that could be stepped-up, with the result of a potential boost in spending of over $1 billion by September 20, 1954. This plan would involve a deceleration in federal spending during the last three quarters of fiscal 1955. And in July, 1954, the Budget Bureau requested agencies and departments to present plans on how items within their jurisdiction could be more rapidly completed. Ibid., p. 156. In Prosperity Without Inflation, Burns reports a delay in actually carrying out these rescheduled expenditures and notes that they became effective at a time they were no longer needed. Burns, op. cit., p. 34.
was in the field of taxes that both Presidential and Congressional action was required. Fourth, in dealing with the recession, the Administration chose to rely in part on monetary policy, the central prescription of which was in the hands of an autonomous agency. This may be a case of the Administration deferentially adapting its policy to the policy of another agency. But still the decision to rely to some extent on monetary policy may be viewed as a policy decision.

In this policy-making process, the President performed many functions, generally those that are implied by his legal responsibilities or by expectations surrounding his office or those associated with communications, for which he is particularly well suited. Because of electoral considerations and the expectation that the President should present a program to counter any recession, the President would quite expectedly play an important role in defining the issue and in formulating proposals. The President was also conscious of a representative function that he was performing in the policy process--representing what he took to be his election mandate. The President's legal responsibilities require that he perform the function of prescription. The President's publicity advantages made him a likely candidate to perform the functions of communications and mobilization.
This study also revealed the major part that Chairman Burns played in many functions, particularly initiation, definition of the issue, communications, and to a lesser extent perhaps, formulation. Burns and the Council were clearly the primary performers of the initiation function, as their particular expertise might suggest. Moreover, it was Burns' economic expertise that was so heavily relied on within the Administration for the definition of the issue. And the definition of the issue, of course, had important implications for the formulation of a response to the recession. Burns was also called upon to make particular suggestions as to what would be appropriate steps for the Administration to take as a response to the recession. It seemed that many members of the Administration, including most importantly the President, believed that Burns had important contributions to make to the Administration's response, a matter which would have major political consequences for the Administration.

Secretary of the Treasury Humphrey was also a member of the Administration who played an important part in defining the issue, formulating proposals, and in modification. While Burns' activity was generally in the direction of governmental activism, Humphrey's was, on the whole, in the direction of restraint. He generally was less willing than other members of the Administration, including the President, to favor governmental activity, and seemed able to
act as a restraining influence within the Administration.

Congress was particularly active on the tax cuts, which were the only proposals that Congress was called upon to prescribe. Indeed, the Republicans on the Ways and Means Committee must receive credit for having formulated an excise tax cut even in the face of initial Administration opposition. The Democrats in Congress presented a major attempt at modification of the Administration's tax proposals in the form of the George plan to increase the individual exemption.

Ideology influenced the political behavior of several participants during the 1954 recession. The economic ideology of Eisenhower and Burns influenced the selection of proposals that the Administration put forth to counter the recession. Both viewed monetary policy and tax cuts as alternatives to be used before public works, which they viewed as a last resort. Secretary Humphrey's more orthodox economic ideology also affected his political behavior.

In some ways, the contest over the tax reduction measures resembled Lowi's redistributive arena, for, with the exception of the January 1, 1954, reduction on which there was general agreement, they involved a dispute between the Democrats and union leaders on the one hand, and the Republican Administration on the other hand, over what groups should directly benefit from the tax cuts.
CHAPTER III

PRESIDENTIAL BEHAVIOR DURING THE 1958 RECESSION

This chapter will analyze the behavior of President Eisenhower during the second recession of his Administration by applying the policy process framework to the following kinds of proposals and policies that were formulated and/or adopted in response to the recession: (1) monetary policy; (2) expenditure and revenue levels in the Administration's budget for fiscal 1959; (3) tax reduction proposals; (4) increased spending; (5) extension of unemployment compensation benefits; and (6) acceleration of scheduled projects.

The President faced this recession with two new key economic advisers and with a Democratic Congress. Robert Anderson replaced George Humphrey as Secretary of the Treasury and Raymond Saulnier replaced Arthur Burns at the Council of Economic Advisers. Anderson was regarded as just as conservative as Humphrey, but perhaps more willing to compromise. While respected by the President, socially he was not as close as Humphrey to the President.\(^1\) The President appointed Saulnier as a member of the CEA in the


128
spring of 1955 after he had served as a special consultant to the Council. Although Eisenhower had great respect for him and claims to have consulted him throughout his term, Saulnier does not appear to have enjoyed Burns' close rapport with the President. The President might well expect a Democratic Congress to formulate countercyclical programs that he would regard as unwise.

Pre-Recession Economic Policy

Restrictive budgetary policy

Prior to the onset of the recession, the Administration, Congress, and the Federal Reserve Board exhibited similar economic concerns--inflation and an interest in limiting governmental spending. Treasury Secretary Humphrey's statements about the inflationary impact of the fiscal 1958 budget and the reactions of the President and Congress to them illustrate the support that existed in 1957 for a restrictive budgetary policy. On January 9, 1957, Humphrey read the cabinet a letter concerning the

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2Saulnier had received his M.A. from Tufts and Ph.D. from Columbia. He knew Burns from the National Bureau of Economic Research where he had served as director of the bureau's financial research program. Saulnier was a recognized expert on mortgage finance and had served in the Agriculture Department during the Truman Administration as an adviser on farm credit. Ibid., p. 108.

budget that he intended to send to the President. While Secretary of State John Foster Dulles thought it too critical and Budget Director Brundage feared it would be interpreted as a rift in the Administration, the President agreed with Humphrey that the letter would stiffen Congressional opposition to budget increases. Neustadt cites this letter, Humphrey's extemporaneous comments on it at a press conference, the President's statements that he personally edited the letter, and his other statements that were interpreted as an invitation to Congressional budget cutting as examples of how not to improve a President's "professional reputation." Instead of increasing expenditures as the President had feared, the Democratic Congress showed great concern with cutting the budget. In March, 1957, the House by a resolution asked the President to indicate where and by what amounts substantial cuts could be made in his budget. In response, the President stated that Congress had the constitutional power of appropriations, that he had no objections to re-examining the budget, and that the last cabinet meeting had been devoted entirely to

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the subject of the elimination of useless portions of the budget. But in his view, major reductions could not be made without reducing or slowing important programs. Eisenhower suggested that Congress could save $1.342 billion by reducing contingency expenses and by postponing certain appropriations.⁶

Restrictive monetary policy

Complementing the restrictive budgetary policy of the Administration and Congress was the restrictive monetary policy that the Federal Reserve Board had followed since mid-1955, with occasional relaxations of restraint due to uncertainties in the business outlook, Treasury financing problems, or both.⁷ As prices rose and business activity declined throughout 1956-1957, the Federal Reserve concentrated on the price increases and kept money tight. The Federal Reserve's discount rate, which stood at 2.5

⁶Eisenhower suggested a reduction of $300 million in contingency expenses and postponements of appropriations as follows: $500 million for military assistance; $200 million for military public works; $254 million for the Soil Bank; $50 million for the Federal National Mortgage Association; $25 million for college housing; and $13 million for the Corps of Engineers. He also suggested steps to improve the budgeting situation in the future, such as the adjustment of postal rates, state and local participation in water resource projects, and provision for the item veto. Eisenhower, op. cit., pp. 130-131.

per cent at the beginning of 1956, was increased in April and August, 1956, and in August, 1957, until it reached 3.5 per cent. From March to mid-November, 1957, the Federal Reserve firmly pursued a restrictive monetary policy. The mid-November, 1957, policy shift represented a moderate relaxation rather than a complete elimination of credit restraint and lagged the business downturn by three or four months. Had credit policy been reversed instead of restricted in March, 1957, Hickman believes that monetary policy would have countered recessionary tendencies.  

As early as January 28, 1957, the Open Market Committee had been aware of a weakening in business expansion and had repeatedly mentioned in its reports for the following months "sidewise movements" of aggregate activity. Although these "sidewise movements" were complicated by downward and upward movements in given sectors of the economy,

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9 Hickman, op. cit., pp. 341-342. Critics of the Federal Reserve's restrictive policy argue that it achieved neither full employment nor price stability and that it actually hastened the business decline while failing to halt the price rise. Freeman finds it difficult to understand why the Federal Reserve waited until mid-November, 1957, before moving toward easier credit and implies that such a move should have been made at least after Labor Day when, in the absence of the seasonal upturn, it became apparent that a recession was a good possibility. Ibid., pp. 80-81. He also notes disagreement among Federal Reserve officials on how to proceed. For example, when the discount rate was raised in August, some of the Reserve banks were reluctant to fall into line. Ibid., p. 82.
the great weight monetary officials placed on price sta-
bility, rather than deficiencies in economic prediction, 
explains the restrictive monetary policy.  

Dimensions of the recession

The economic decline that began in late 1957 can be 
attributed to the restrictive monetary policy, a decline in 
federal spending, a high level of output in the previous 
two years that led to an accumulation of durables, a de-
cline in the output for consumer durables, and a decline 
in capital investment.  

While relatively brief, the 
recession of 1957 to 1958 was quite severe; the April, 1958, 
trough in the recession occurred only nine months after the 
peak. Yet, the decline in production and in employment was 
greater than that which occurred during the longer reces-
sions of 1948-49 and 1953-54. The peak rate of unemploy-
ment was 7.5 per cent during the 1957-1958 recession,


11For discussions of the "cause" of the recession, 
see ibid., pp. 139-141, 341-343; Freeman, op. cit., p. 82; 
and A. E. Holmans, United States Fiscal Policy 1945-1959, 
of the President explains the economic decline in 1957 by 
pointing to the moderate decline in capital investments 
during the final quarter of 1957, the moderate decline in 
exports in the last quarter, the mid-1957 decline in mili-
tary procurement, awards for new contracts and in total 
federal purchases, the sharp reduction in inventories in 
the fourth quarter, and the halt in the expansion of con-
sumer demand and the decline in personal income and retail 
sales at the end of the summer. Economic Report of the 
compared with 6.9 per cent and 5.8 per cent during the two earlier postwar recessions.\textsuperscript{12} Despite the emergency extension of unemployment benefits in June, 1958, recovery only slowly reduced unemployment. In October, 1958, seasonally adjusted unemployment was still 7 per cent. And while production rose 10 per cent from the last half of 1958 to the first half of 1959, unemployment during 1959 averaged 5.5 per cent, which, for a supposedly prosperous year, was only slightly under the recession rates of 1949 and 1954.\textsuperscript{13}

Freeman attributed the economic upturn to several factors: continued increase in state and local government purchases; the general maintenance of corporate dividends; a slight increase in defense spending; improvement in the market for government supported mortgages; the support for consumer buying power particularly resulting from the automatic stabilizers--individual and corporate income taxes and unemployment compensation; and monetary policy. He doubts that recovery would have occurred so soon if credit

\textsuperscript{12}Hickman, op. cit., p. 145.

had not been eased.\(^1\)\(^4\) Hickman notes that, apart from spending for agricultural stabilization, Federal expenditures increased comparatively little during recovery. Yet, the end of the decline in defense spending was important because that constituted the removal of a deflationary trend at a crucial time.\(^1\)\(^5\) Monetary policy also shifted to an expansionary force at about the midpoint of the recession.\(^1\)\(^6\)

**Initiation**

The function of initiation was performed primarily by the Council of Economic Advisers and particularly by its chairman, Raymond Saulnier, who, in his economic predictions, relied on three sets of statistical indicators. One set typically leads a change in the cycle, a second set typically moves with the cycle, and a third set typically "lags" the cycle.\(^1\)\(^7\) As an aid, Saulnier constructed a

\(^1\)\(^4\)Freeman, op. cit., p. 85.

\(^1\)\(^5\)Hickman, op. cit., pp. 151, 153. Holmans contends that the discretionary increases in federal spending for anti-recessionary purposes were greater than that in either of the two previous postwar recessions. Holmans, op. cit., p. 292.

\(^1\)\(^6\)Hickman, op. cit., p. 154.

\(^1\)\(^7\)Prior to the downturn, Saulnier was particularly concerned with the eight leading indicators: (1) average hours worked in basic manufacturing industries; (2) new orders for durable goods; (3) stock market price; (4) spot market commodity prices; (5) F. W. Dodge reports on residential construction; (6) F. W. Dodge reports on industrial
"diffusion index," which indicated which components of a series were rising and which were declining.

By May, 1957, a majority of Saulnier's eight leading indicators were falling, just as before the 1953-54 recession, and three of the indicators that typically moved with the cycle had been declining for some months. The strong forward movement of the "laggards" was not necessarily encouraging. By the spring of 1957, the diffusion index of the "leading" series was well below its level at the onset of the 1953-54 recession and the position of the coincident series was also disturbing. By early summer, Saulnier and his CEA colleagues, Paul W. McCracken and Joseph S. Davis, had concluded that easier credit was warranted because inflationary trends were declining. At about this time, Saulnier observed to Eisenhower that the economy seemed to be stalling and that there appeared to be no latent strength to carry it to substantially higher levels. But neither Federal Reserve Chairman Martin nor Presidential Assistant Gabriel Hauge agreed with the Council's conclusion that easier credit was advisable. While many forms of demand were levelling off or declining, the consumer price index continued to rise. In view of the continued rise in prices, Martin, Hauge, Humphrey, and the President

construction contracts; (7) Dun and Bradstreet's reports on business futures; (8) Dun and Bradstreet's reports on new incorporations. Murphy, op. cit., p. 108.
continued to focus on inflation.¹⁸

**Definition of the Issue**

The President and his major economic advisers continuously performed the function of definition of the issue throughout the recessionary period. Compared to 1954, the Administration's definition of the issue differed in two respects: first, it appeared less willing to define the issue as a recession, stressing instead an inflationary danger; second, it placed less emphasis, either publicly or within the Administration, on its willingness to act in a countercyclical manner, should that become necessary. This difference may be accounted for by the Administration's perception that it had dealt successfully with the 1954 recession by following a "hands-off" policy and not panicking.¹⁹ Moreover, the Administration perhaps no longer felt a need to prove that a Republican Administration could


¹⁹The following is Eisenhower's description of the similarities between the 1954 and 1958 recessions: "The year 1958 brought economic recession, which, for the most part, repeated the story of the 1954 recession: a dip in the economy, frenzied Democratic calls for action, the administration's determination not to panic, and the economy's gradual emergence from difficulty." Eisenhower, op. cit., p. 305. The President also said that "I took the view as we had in 1954 that we should prepare strong programs to prevent a serious lengthy decline but should never be swayed from reason by the purveyors of gloom." Ibid., p. 307. Presidential Assistant Gabriel Hauge had similar views on this matter. See Murphy, op. cit., p. 106.
prevent a recession.\(^{20}\)

**Saulnier's definition of the issue**

Throughout this period, Saulnier tried to define the issue as a threatening or actual recession that called for some kind of governmental response. However, he had difficulty persuading other participants, including the Secretary of the Treasury, Presidential Assistant Gabriel Hauge, Chairman William McC. Martin of the Federal Reserve Board, and the President, himself, of the validity of his view. By July, 1957, Saulnier had lost hope for an economic upsurge, but remained rather confident that an easing of credit by the Federal Reserve would prevent a severe economic disturbance. During July, Saulnier and his colleague, Paul W. McCracken, met several times with Federal Reserve Board Chairman Martin and Vice-Chairman C. Canby Balderston and argued strongly for a shift in Federal Reserve policy. However, fearing an inflationary danger, Martin argued that the Board's policy was correct. Saulnier and McCracken regarded the Federal Reserve's August, 1957, increase in the discount rate as a mistake.\(^{21}\)

During the autumn, Saulnier believed that the economic situation warranted a tax cut to boost purchasing


\(^{21}\)Murphy, *op. cit.*, p. 242.
power and hoped that the budget for fiscal 1959 would permit such a move. Since calculations governing the preparation of the fiscal 1959 budget had proceeded on the assumptions that expenditures could be reduced to $68 billion and that revenue would be $76.6 billion, it was possible to envision the Eisenhower Administration proposing a tax cut. But the Soviet launching of Sputnik on October 4, 1957, ruined Saulnier's hope for a tax cut to stimulate consumer spending, and he turned to increased military spending as a substitute.\footnote{22}

With the launching of Sputnik, the President felt he had to accelerate the nation's missile and satellite programs.\footnote{23} By mid-October, Congress, the press, and various public officials were demanding a step-up in military spending. Saulnier told the President and the cabinet that he was rather sure that a recession was underway, since economic indicators, which had risen slightly in the early summer, had once again begun to fall. But at this meeting, Sputnik took precedence over Saulnier's report. In contrast to Secretary of Commerce Sinclair Weeks' view that the economy was moving sideways, Saulnier had come to believe that both increased military spending and easier credit were needed to check the recession.\footnote{24}

\footnote{22}{Ibid.} \footnote{23}{Eisenhower, op. cit., p. 211.} \footnote{24}{Murphy, op. cit., p. 242.}
The President and his four economic advisers

The President and four of his economic advisers played an important role in defining the issue for the Administration. In September, 1957, Secretary Anderson had arranged that he, Martin, Saulnier, and Hauge would confer regularly with the President on monetary and credit policies in order to acquaint the President with the problems of the Federal Reserve and to give Chairman Martin personal access to the President. At an October 14, 1957, meeting of this group, Saulnier seems to have been alone in his conclusion that action was necessary to counter a possible recession. Instead of stressing a possible recession, Secretary Anderson and Chairman Martin agreed with the view Eisenhower had expressed three weeks earlier that no economic problem "is currently more pressing" than inflation. Martin stated that the Federal Reserve's open market operations that were just being initiated would be sufficient to meet the business decline. Saulnier warned that revenues for the year might equal only $72 billion and not $76 billion, and that unemployment might increase by 500,000 or even 1,500,000. He stated that the Administration "must take every measure to prevent a sharp decline in the economy." As a result of this meeting, Eisenhower concluded

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25 Ibid.  26 Eisenhower, op. cit., p. 213.
that a recession was a possibility, for he writes that all
the participants agreed that "the economy is making a side-
wise movement with a slight tendency to decline" and adds
that this meant "[i]n layman's terms, a recession could be
in the offing."27

Since he knew by the first week in November that the
diffusion index had reached a level below the low point of
the 1953-54 recession, Saulnier was even more outspoken at
the second meeting of this group of economic advisers, held
on November 12, 1957. The President asked whether a credit
ease was not appropriate and Martin stated that the Board
was considering a change in monetary policy. Indeed, on
November 14, the Federal Reserve reduced the discount rate
from 3.5 per cent to 3 per cent.28 But, even now, the
President did not seem to define the issue as a recession
requiring a major countercyclical effort, for in a Novem-
ber 13 speech, he stated his intention to reduce non-
defense spending to compensate for increased defense spend-
ing so that total expenditures in fiscal 1959 would be
held at the 1958 level.29

27Ibid.  28Murphy, op. cit., p. 244.
29E. Cory Brown, "Federal Fiscal Policy in the Post-
war Era," in Ralph E. Freeman (ed.), Postwar Economic
Trends in the United States (New York: Harper and Brothers,
1960), p. 176; Holmans, op. cit., p. 276. It should be
noted that in November, 1957, Eisenhower rejected the ad-
vice from his former Treasury Secretary, George Humphrey,
that the budget should always be balanced, regardless of
the reasons for spending. Eisenhower argued that the
The 1958 Budget Message and Economic Report anticipate no significant recession

The President's January, 1958, Budget Message and Economic Report did not define the economic situation as a recession requiring major governmental action. Both documents contained no major expansionary programs. The President's budget recommended reducing civilian expenditures because of increases in defense spending, which, including "defense support" in the foreign aid program, was $965 million above the fiscal 1958 level. In response to the Soviet Union's scientific achievements, he also recommended a $100 million increase in aid to education. The Administration evidently expected no significant recession, since it proposed no tax changes and anticipated that any drop in income in early 1958 would be made up in late 1958. The President projected a $400 million deficit for the country was in pretty bad shape if confidence depended only on a significant budget reduction. Eisenhower, op. cit., p. 217. The text of Eisenhower's letter to Humphrey can be found in ibid., Appendix L., p. 687.

In order to reduce civilian spending, some of which might not actually be felt until later years, the President recommended the following: (1) a postal rate increase, which would reduce the existing postal deficit of $680 million to a small deficit; (2) reduction and end of federal aid to impacted areas; (3) revision of public assistance grants-in-aid to increase state share of cost; (4) restriction of hospital construction grants-in-aid to only the most urgent needs; and (5) economies in veterans services and in grants to farmers for soil conservation. Holmans, op. cit., p. 277.

Ibid., pp. 277-278.
fiscal 1958 and a $500 million surplus for fiscal 1959.\textsuperscript{32}

Unlike the 1954 Economic Report, the 1958 Economic Report contained no discussion of the "formidable arsenal of weapons" available to deal with a recession nor of the Administration's willingness to employ such weapons, but stressed instead the theme of economic recovery without special federal governmental action.\textsuperscript{33} It is perhaps significant that the 1958 Economic Report's discussion of goals omits explicit mention of full or maximum employment.\textsuperscript{34}

\textsuperscript{32}Brown contends that the President's budget lacked expansionary programs because of the Administration's belief that confidence was required for economic recovery. He also describes the budget as obsolete by the time it was prepared because of the Administration's refusal to recognize a decline in incomes below the previous year, since to do so would have implied an inadequate policy. Brown, \textit{op. cit.}, pp. 176, 183.

\textsuperscript{33}Holmans maintains that this position, while not unreasonable in view of the available information, did entail serious risks. Holmans, \textit{op. cit.}, p. 279.

\textsuperscript{34}"We cannot say that we have only one goal, unless it is to advance the general welfare. Sustainable and balanced growth in our economy is needed to assure our defenses, to satisfy our growing wants, and to enable us to assist healthy expansion and improvement in other economies of the free world. Also we seek to hold economic fluctuations within narrow limits, to maintain a reasonably stable price level, and to avoid deflationary as well as inflationary developments. And we insist on striving for these goals within a framework of free competitive institutions." Economic Report of the President, January, 1958, p. 1. The Report also states that the government has "a clear responsibility . . . to pursue policies that will help prevent inflation" and emphasized that the Administration would try to achieve economic growth without inflation by relying on measures that interfere only minimally with individuals and groups. \textit{Ibid.}, pp. 4-5.
In his letter accompanying the Report, the President called 1957 "a prosperous one, despite a decline in the closing months." He noted that employment was over sixty-five million (an increase of 300,000 over 1956), that both GNP and personal income were 5 per cent higher than 1956, but also added that much of these increases reflected higher prices.35 On the negative side, the President stated that unemployment rose to 5.2 per cent in December, 1957.36

The Report stated that the "paramount task" for much of the year had been to restrain inflationary tendencies, which had diminished as the year progressed. To restrain inflation, federal spending programs were reviewed for possible savings, no general tax reduction was enacted and reductions in certain excise taxes and in the corporate income taxes scheduled for April 1, 1957, were postponed.37 In addition, the Federal Reserve followed a restrictive credit policy until mid-October, but between November 15 and November 29, all but one of the Federal Reserve Banks reduced the discount rate from 3.5 per cent to 3 per cent. In January, 1958, the FHA took steps to strengthen the

35Ibid., p. iii. 36Ibid.

37Ibid., p. 6. The Report also states that certain steps were taken, mainly in the fields of home building and small business, to moderate the impact on certain sectors of these anti-inflationary moves. Ibid., p. 7.
effect of the Federal Reserve's easier credit. 38

The Report argued that the rough stability in unemployment rates until October compared favorably with the low rates generally prevailing since 1955. Admitting that seasonally adjusted unemployment rates rose from 4.3 per cent in September to 5.2 per cent in December, it tried to place this trend in a more favorable light by arguing that average unemployment for all of 1957 was 4.3 per cent, which was about the same level as that in 1954. 39

While recognizing the current need to facilitate what he called economic readjustments, the President still exhibited concern for inflation. He did not expect a prolonged decline in business activity and stated that government policies would be designed to help stimulate the resumption of economic growth. 40 He expected increased military spending, among other factors, to be helpful in shortening the decline. He recommended the postponement for another year of the scheduled July 1, 1958, reductions in corporate income and excise taxes, because he believed the small budgetary surplus anticipated for fiscal 1959 was insufficient to justify the reductions. 41

38 Ibid., p. 8.
39 Ibid., p. 20.
40 Ibid., p. iii.
41 Ibid., pp. 50-57.
A new concern for recession

During January and February, 1958, the President and other high Administration officials indicated a greater awareness of the recession, while still, in some cases, exhibiting a concern for inflation. For example, Eisenhower's speech at a Republican dinner in Chicago on January 20 denounced inflation as "one of the most sinister threats to prosperity" but did not even mention unemployment or the recession. Yet, at his February 5 news conference, he said that the economic decline would continue during January, February, and March with an upturn around mid-year, that a tax cut was one means of stimulating the economy, but still expressed concern about inflation. Echoing this view were Treasury Secretary Anderson and Commerce Secretary Weeks. Before the Joint Economic Committee on February 7, Anderson stated his prediction that there would


43 Public Papers of the Presidents of the United States, Dwight D. Eisenhower, 1958, pp. 146-147. The President said that a tax cut would be a reserve weapon to use if the economy did not recover as fast as expected. He continued: "One thing, it would have a very real, great stimulus on the economy, no question about that; but on the other hand, this is something you can take hold of and, going too far with trying to fool with our economy, then you get something else started. And you just remember, all of you here a year ago, how we were always talking about inflation and the things we were trying to study." Ibid., p. 147.
be "more bad news in certain segments of our economy" and his willingness to propose a tax cut if economic conditions should warrant one. On February 9, Secretary Weeks predicted that February unemployment would rise to five million, which would have been the highest figure since 1941, and then begin an immediate decline and that the business slump would end by May or June.

President Eisenhower responded on February 12, 1958, to Democratic charges of inaction and inadequacy by issuing an Economic Statement and Fact Paper in which he defended the actions of his Administration and held out hope for an upturn. He admitted that statistics on employment and unemployment released on February 11 by the Departments of Labor and Commerce suggested a greater than normal rate of economic decline, but stated that March would mark "the beginning of the end of the downturn," as job opportunities would pick up. In his view, a prolonged downturn would not occur because of the basic strength of the forces of economic growth and the government's sound policy of fostering recovery. The President pointed to the following kinds of anti-recessionary steps taken by the government:

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46 Public Papers of the Presidents of the United States, Dwight D. Eisenhower, 1958, p. 151.
Federal Reserve actions; actions to stimulate housing; stepped up highway spending; increases in urban renewal activity; a sharp increase in the first half of 1958 in the rate of awarding defense procurement contracts; the Administration's planning for useful public works; and the Administration's $2 billion Post Office modernization plan, which was to be spread out over three to five years. To keep these actions in perspective, it should be understood that the $0.6 billion increase in the highway program had been provided for in the original 1956 legislation and that the additional defense contracts represented only a restoration of the previous year's cutbacks. Furthermore, the $2 billion Post Office modernization plan was a five-year program that involved spending, at the most, only $175 million during 1958. Even this small amount of spending depended on the passage of postal increases that would collect at least as much in revenue.

The President's view of the role of the private sector in recovery

During the spring of 1958, the President defined the economic situation in terms that stressed the contribution

\(^{47}\)Ibid., pp. 151-152. The text of the Fact Paper may be found in the New York Times, February 13, 1958, p. 16.

\(^{48}\)Brown, op. cit., p. 178.
of the private sector to economic recovery as well as the
danger and ineffectiveness of massive public works. In his
March 5 news conference, his March 9 letter to House and
Senate Minority Leaders on measures to aid economic growth,
and his March 18 speech to the Republican Women's National
Conference, Eisenhower explained his belief that an eco-
nomic upturn depended more on private decisions than on
governmental actions and his opposition to "make-work" pub-
lic works programs, which he regarded as slow-moving, inef-
fective, dangerous to initiative, supplanters of private
enterprise, and administered by huge bureaucracies. In
his letter to the leaders, he explained what he viewed as
the useful steps taken since his February 12 statement to
accelerate needed programs. These included: (1) accelera-
tion of various civil projects and water resource projects;
(2) release of an additional $200 million to the Adminis-
trator of the Housing and Home Finance Agency; (3) the
Administration's legislative request for an amendment to
the Highway Act to suspend for three years certain spending
limits; (4) award of additional military contracts to areas
of unemployment; (5) Veterans Administration and Federal
Home Loan Bank action to make more funds available for hous-
ing; and (6) the Administration's intention to ask Congress

49Public Papers of the Presidents of the United
States, Dwight D. Eisenhower, 1958, pp. 151, 208-211, 218-
220.
to extend unemployment benefits for workers whose eligibility had expired.\footnote{Ibid., pp. 208-211.}

Hopeful signs in late spring

During April, Eisenhower cautiously pointed to signs that the economic decline was leveling off and again raised the issue of inflation. For example, he noted in his April 8 \textit{Statement on Employment} that the Commerce and Labor Departments' figures for March showed both an increase in jobs and unemployment leveling off, which together suggested that the decline was slowing up.\footnote{Ibid., p. 293.} At his April 9 news conference, replying to a question of whether a $10 billion deficit was a legitimate price to pay if necessary to halt a slump, he referred to his great concern for inflation under such circumstances.\footnote{Ibid., p. 304.} Commenting at his April 23 news conference on Secretary of Commerce Sinclair Weeks' recent statement that the worst of the recession was at hand, Eisenhower stated that, while he did not wish to be Pollyanish, evidence of the last few weeks suggested a flattening out in the rate of decline. At this time he also warned against an abrupt tax cut, citing the great
expenditures for the military. And, finally, at his April 30 news conference, he interpreted an April 29 Census Bureau report that showed an increase of about 600,000 in both employment and unemployment as "continued and emphatic evidence that the decline is flattening out."  

Saulnier reported to the Cabinet on May 2, 1958, that the downward trend had abated, but that most economists had not yet predicted an upturn before the end of the year. Eisenhower continued to reject a tax cut, claiming he needed additional evidence that such a move would aid rather than harm the economy. Arguing that the automatic stabilizers were helping, Secretary Anderson supported the President's position and warned of the dangers of premature federal action. In speeches to the 14th Annual Washington Conference of the Advertising Council and to the Republican National Committee Dinner in Honor of the Republican Members of Congress on May 6 and to the Economic Mobilization Conference of the American Management Association on May 20, the President reiterated his belief in the importance of the contribution of the private sector to recovery.  

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53 Ibid., p. 338. At his April 23 news conference the President also endorsed advertising campaigns aimed at convincing consumers that they ought to buy now. The particular campaign he discussed concerned a campaign promoting auto buying in Cleveland, p. 341.  

54 Ibid., p. 352.  

55 Eisenhower, op. cit., p. 310.
as well as his opposition to massive public works programs. 56

In late spring and early summer, Eisenhower found hopeful developments. He specifically mentions the drop of 30,000 in unemployment between mid-April and mid-May (which was the first upward movement since November), the increase in industrial production, personal income, non-agricultural employment and new home construction during June and July, and the upward movement of GNP in the second quarter of 1958. 57

Formulation

The major proposals and policies formulated in response to the recession of 1958 may be placed in the following categories: (1) monetary policy; (2) expenditure and revenue levels in the Administration's fiscal 1959 budget; (3) tax reductions; (4) increased spending; (5) extension of unemployment compensation benefits; and (6) acceleration of scheduled projects.

Monetary policy

The preceding chapter pointed out that, while the autonomous Federal Reserve Board has the legal authority to

56The texts of these speeches may be found in Public Papers of the Presidents of the United States, Dwight D. Eisenhower, 1958, pp. 372-378, 386, and 415-421.

57Eisenhower, op. cit., p. 310.
formulate and prescribe monetary policy, the Administration may also be said, in a sense, to formulate monetary policy by deciding to rely on monetary policy as a response to the recession. Within the Administration, Saulnier was the first participant to advocate the formulation of an easier monetary policy. During the summer and early fall of 1957, he tried, without much success, to persuade the President, major administration economic advisers and Federal Reserve Chairman Martin to agree to a less restrictive policy. The comments of the President and of Martin at the mid-November, 1957, meeting of the group of four, together with the reduction in the discount rate a few days later, suggest that both had agreed by that time to the formulation of such a policy. And the President's many favorable references to the appropriateness and effectiveness of a less restrictive monetary policy indicate that he accepted such a policy as an important element in the government's response to the recession.

The Federal Reserve Board reinforced its policy of restraint in August, 1957, by raising the discount rate, a move that Saulnier and McCracken regarded as a mistake, but began to formulate a policy of easier credit in the autumn.\textsuperscript{58} Open market operations in late October eased

\textsuperscript{58}Murphy, \textit{op. cit.}, p. 242.
restraint somewhat and were followed by the November 15 reduction in the discount rate from 3.5 per cent to 3 per cent. The Board further reduced the rate in three more steps until it stood at 1.75 per cent at the end of April, 1958. Beginning in late February, 1958, the Board also reduced the reserve requirement for central reserve banks from 20 per cent to 18 per cent and for reserve city banks from 18 per cent to 16.5 per cent.

The 1958 Federal Reserve shift to a tighter monetary policy occurred much sooner than it had in 1954 and while employment was at a much higher rate. This shift took place in 1955 when unemployment stood at 4 per cent but in 1958 when unemployment was still 7 per cent. In August of 1958, the Federal Reserve raised the 50 per cent margin requirement for stock loans to 70 per cent and the discount rate

\[59\] This reduction took place four months after the turning point of the National Bureau's "reference cycle." [Ibid., p. 244; Holmans, op. cit., p. 244.]

\[60\] Freeman, op. cit., p. 83. These reductions in the reserve requirements created a potential $6 billion in new credits. [Murphy, op. cit., p. 250.]

\[61\] Hickman, op. cit., p. 345. Hickman contends that the Open Market Committee knew that "substantial unemployment . . . existed when they applied the brakes to monetary expansion in 1958, but they feared that an inflationary and speculative psychology was developing which must be curbed despite the large numbers of unemployed." p. 345. He also notes that the Board received criticism that it had unduly delayed the application of monetary restraint during 1954-1955 recovery and that the Board had subsequently come to accept his view. [Ibid., p. 345.]
rate from 1.75 per cent to 2 per cent.  

Proposals to increase housing credit by changing the terms of government insured housing loans may also be placed in the category of monetary policy. The President's February 12, 1958, Fact Paper cited two such examples of Administration formulated proposals to ease credit for government insured housing. In August of 1957, the down-payment requirement for FHA insured home loans was liberalized and in January, 1958, the FHA rescinded the rule that closing costs be made in cash.

The final proposal to be considered in this category of monetary policy is the Emergency Housing Act. This bill, formulated by Senator John Sparkman and Representative Albert Rains authorized approximately $1 billion in the equivalent of direct government loans, under favorable terms, for houses with mortgages up to $13,500.

In response to the impending recession, Saulnier formulated both tax cut and increased spending proposals for inclusion in the Administration's fiscal 1959 budget.

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62 Freeman, op. cit., p. 85.
64 Sundquist, op. cit., p. 24.
While the President's fiscal 1959 budget cannot be regarded as an expansionary instrument, spending was higher than some members of the Administration had hoped.

In the autumn of 1957, Saulnier and his CEA colleagues had concluded that a change in credit policy would not suffice to halt the downturn, but that fiscal 1959 required a budgetary stimulus. Saulnier first concentrated on formulating a tax cut to boost purchasing power, but after Sputnik, turned to increased military spending.

The Budget Bureau argued for a balanced budget. From October to December, Budget Bureau Director Percival Brundage favored holding federal spending first at $70 billion and then at $72 billion. By December, the Treasury's revenue estimates had dropped from $76.6 billion to $72 billion. Saulnier argued that the Administration could not, in the post-Sputnik era, present a budget whose expenditure level was any lower than the spending estimates for fiscal 1958, which was $72.8 billion. He suggested instead a budget of over $75 billion, with increased spending for defense, schools, and highways. He also argued that in view of the $72.4 billion revenue estimate for fiscal 1958, the presentation of a fiscal 1959 budget based on a revenue estimate of only $72 billion would open the Administration to the charge of lacking confidence in its own policies and

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65Murphy, op. cit., p. 244. 66Ibid., p. 242.
in the strength of the economy. He further contended that the Administration could "in good conscience" propose a budget based on a $74.5 billion revenue estimate, on the assumption that economic recovery would begin no later than the third quarter of 1958.\footnote{Ibid., p. 244.}  

Vice-President Nixon, Postmaster-General Summerfield, Secretary of Labor Mitchell and Secretary of Health, Education and Welfare Folsom supported Saulnier's case for a more optimistic revenue estimate and for increased spending. On December 13, Saulnier reached an informal agreement with the President that the revenue estimates would be raised. Brundage still opposed any increase in expenditures above $73.4 billion. Saulnier convinced the President in late December that higher revenue depended on increased federal spending that would generate income that could be taxed. The spending figure was raised to $73.9 billion and the budget showed an estimated surplus of $500 million.\footnote{Ibid., pp. 244, 246.} Saulnier created the original impetus for formulating a budget with increased spending and was supported by the more politically sensitive members of the Administration.

**Tax reduction proposals**  

After the presentation of the budget, the Administration gave some consideration to formulating a tax
reduction plan, but never officially proposed one. The President maintained that a tax cut was always a possible but drastic step that he would take only if convinced of its absolute necessity. He expressed such views in his reply to a letter from former CEA Chairman Arthur F. Burns, who had stated that a $5 billion tax cut was desirable and that delay would lead only to public works and a bigger tax cut later. Eisenhower said that the Administration would continue with the useful steps it had begun--accelerated public works and measures designed to stimulate homebuilding. While taxes may have to be cut, Eisenhower pointed to the inflationary danger posed by budget deficits. At both his March 26 and April 9 news conferences, he stated that the possibility of a tax cut was under constant review, but that there was as yet no need for such a move. Eisenhower gave two reasons at his April 23, 1958, news conference as to why there had been a tax cut during the

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69 Eisenhower, op. cit., pp. 309-310. Eisenhower replied to Burns that he rejected "wild-eyed schemes of any kind," which included both the "vast and unwise public work programs," which would take too long to become effective, and "the slam-bang kind of tax cutting from which the proponents want nothing so much as immediate political advantage." Ibid., p. 309.

70 Public Papers of the Presidents of the United States, Dwight D. Eisenhower, 1958, pp. 234-235, 295. At the March 26 news conference, Eisenhower explained that given the likelihood of increases in appropriations for the military and other functions, any tax cut must be considered in light of both the short-term and long-term effects of continuing deficits. Ibid., pp. 234-235.
1954 recession but none during the 1958 recession: first, a tax reduction had been in the works in 1954 but such was not the case in 1958; second, people in 1958 had the money to spend, but lacked the confidence, and were therefore afraid to spend.  

While the President continued to express his basic opposition to a tax cut throughout the spring, other participants within the Administration suggested that under certain circumstances the Administration might formulate a tax cut, which would be preferable to the various proposals for increased spending. For example, Administration officials and Republican Congressional leaders meeting on February 18 decided against an immediate tax cut or emergency measures to stimulate the economy, believing that an upturn might occur in early spring, but left open the possibility of changing their position if the recession did not end in the summer. On February 25, 1958, Budget Director Percival

\[71\text{Ibid., p. 345.}\]

\[72\text{New York Times, February 19, 1958, p. 1. Participating in this group, in the absence of the President who was vacationing in Georgia, were the following: Sherman Adams; Secretary Anderson; Secretary of Commerce Sinclair Weeks; Secretary of Labor James P. Mitchell; CEA Chairman Saulnier; Gabriel Hauge; Republican Senate Leader Knowland; and Republican House Leader Joe Martin. Ibid., p. 19. Knowland stated that the following factors influenced the Republican group to oppose a tax cut and "spending orgies": (1) the increase in housing starts for January, which, if continued at the current rate, would amount to 1,100,000 for the year; (2) defense orders for the first six months of 1958 would be 34 per cent above expenditures in the last six months of 1957; and (3) the Administration's recently}
Brundage stated that he expected an upturn by July 1, but if that did not occur, he would favor a tax cut over public works because public works took too long to implement.  

On March 10, shortly after consumer buying had dropped substantially in February (the first such drop during the recession), Vice-President Nixon, reportedly speaking for the Administration, stated that he favored an across-the-board cut in income, business, and excise taxes rather than a massive spending program if the economy did not pick up. Viewed as the most direct statement yet of the Administration's position on tax cuts, the New York Times commented that a tax cut proposal was considered highly likely if deterioration continued in March.

Saulnier and Secretary Anderson disagreed on the advisability of a tax cut. Saulnier's position was that tax reduction, preferably broadly based, would be needed if there were no clear signs of recovery by mid-spring, and that failure to act under such circumstances would involve considerable economic and political risk. But Secretary of

announced $2 billion Post Office modernization and construction program. In Knowland's view, none of the factors could be described as "pump priming" because they all were "constructive in nature."  

\footnote{Ibid., February 26, 1958, p. 14.}

\footnote{Ibid., March 11, 1958, p. 1. On the same day, Budget Director Brundage said in Nashville, Tennessee, that there was a good chance of a tax cut this year.  

\textit{Ibid.}}
the Treasury Anderson, pointing out that unlike 1953-54 federal expenditures were not falling, doubted the effectiveness of a tax cut. He argued that the kind of tax cut most likely politically, i.e., one to aid the low- and middle-income groups, would stimulate purchasing power for nondurables, the sector of the economy least in need of stimulation. He believed that increased public spending for defense and construction more than compensated for the decline in the capital goods sector and advocated postponing a decision on a tax cut until further data were available. Saulnier agreed to hold off a tax cut decision but argued that too long a postponement might result in both a Democratic imposed tax cut and an enormous public works program. 75

Rather than formulate any tax cut, after consultations between Secretary Anderson and Congressional leaders of both parties, the President asked Congress on May 26, as he had in his January Budget Message, to continue the corporate income and excise taxes that were scheduled to expire on July 1. 76 Explaining his decision not to permit

75 Murphy, op. cit., p. 250.

76 Public Papers of the Presidents of the United States, Dwight D. Eisenhower, 1958, p. 424. Explaining his decision to ask for extension of these taxes, the President stated at his May 28 news conference that he had received constant advice on the subject, noted the tax reduction and reforms for small business he had before Congress, and explained that the current economic situation did not warrant any tax reductions that would create greater deficits. Ibid., p. 430.
the tax cut, Eisenhower said at his May 28 press conference that some indices had shown greater strength and greater resistance to a slowdown and decline, but that the weakest point was in the continued decline in automobile sales and in durable hard goods. He added that he would regard a one-quarter or one-half reduction in the long-term interest rate as "a great encouraging sign."

While the Administration considered but never actually formulated a tax cut, other participants did. The major Democratic proponent of a tax cut was Senator Paul Douglas of Illinois who formulated a $5.2 billion tax cut bill divided between personal income and excise taxes and offered this as an amendment to another bill on March 13, 1958.

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77 Ibid., pp. 432-433.

78 Representative Simpson, the ranking Republican on the House Ways and Means Committee and Chairman of the House Republican Campaign Committee, announced on March 8, 1958, his intention to introduce a $6 billion tax reduction bill. He believed that the recession could have been avoided if his tax cut proposal of last winter had been adopted. The Simpson bill provided for a 10 per cent income tax reduction and a reduction in the top bracket from 91 per cent to 70 per cent, for a total reduction of $3,700,000,000 ($84,000,000 of which would be in the top bracket). His bill also would reduce the basic corporate income tax from 30 per cent to 28 per cent and make the maximum corporate tax 50 per cent instead of 52 per cent, for a total reduction of $800,000,000. The bill included a tax cut for small businessmen amounting to $200,000,000. The 10 per cent excise tax on automobiles and 8 per cent excise tax on auto parts and accessories would be reduced retroactively to March 1, for a total reduction of $1,300,000,000. Finally, the Simpson bill provided for a reduction in the capital gains tax from 25 per cent to 12.5 per cent. New York Times, March 9, 1958, p. 56.
1958.79 On June 18, Senator Douglas moved a $6 billion dollar tax reduction bill, which provided an individual income tax reduction of $50 for each taxpayer and each dependent and certain excise tax reductions, as an amendment to the Administration's bill to extend the corporate income and excise tax rates. 80

Increased spending

In response to the 1958 recession, participants, mainly in Congress, formulated proposals for increased spending for public works, housing, farm price supports, highway construction, rivers and harbors, airport construction and community facilities. While the Administration did not publicize its public works planning in 1958 as extensively as it had in 1954, such planning did, nonetheless, constitute part of the Administration's response to the recession. In his February 12, 1958, Statement and Fact Sheet on Economic Conditions, the President noted that the Administration had been planning for some time useful public works that could be taken off the shelf when


needed. In his memoirs, Eisenhower reports that Major General John S. Bragdon, the White House Special Assistant for Public Works Planning, continuously surveyed public works projects that could be begun quickly and completed within two years. And on February 19 it was reported that General Bragdon advised Congress that many projects already authorized by Congress had been stockpiled and were ready for action as needed and that Congress would be asked to grant authority for other projects as and when that became necessary. While the Eisenhower Administration engaged in public works planning, it never actually presented to Congress any plans for additional public works appropriations.

Congressional Democrats formulated several proposals for increased spending as a response to the recession. For example, on February 5, 1958, Senator Albert Gore of

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81 Public Papers of the Presidents of the United States, Dwight D. Eisenhower, 1958, p. 152.
82 Eisenhower, op. cit., p. 308.
84 The Administration's $2 billion post office construction and modernization program was to be spread out over 3-5 years and involved, at the most, the spending of only $175 million in 1958, and the spending of even this small amount was dependent upon postal increases that would bring in at least this much in revenue. See Public Papers of the Presidents of the United States, Dwight D. Eisenhower, 1958, pp. 151-152; the New York Times, February 13, 1958, p. 16; and Brown, op. cit., p. 178.
Tennessee introduced a bill which provided for a $500 million public works program under a Public Works Administration. On February 7, Senator John Sparkman revealed that he was preparing an "omnibus" anti-recessionary housing bill designed to stimulate residential construction and slum clearance.

Since price supports on several commodities were scheduled for reduction below the 1957 levels, the Senate Agriculture Committee formulated and, on March 7, 1958, reported two resolutions to freeze farm price supports--S.J. Resolutions 162 and 163--which proponents claimed would aid farmers and help curb the recession. As reported, S.J. Resolution 162 prohibited indefinitely any reduction below the 1957 level in acreage allotments or price supports for any farm commodity, except tobacco, which was separately protected. Dairy state senators feared a veto of this resolution, which covered dairy products, and so favored S.J. Resolution 163, a more limited measure which barred any reduction below the 1957 level in price supports for dairy products alone.

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86 Ibid., February 8, 1958, p. 1.
87 Congressional Quarterly Almanac, 1958, p. 270.
Congress also formulated H.R. 9821, the Highway Act of 1958, as an anti-recessionary measure. Legislative action was required in 1958 to prevent the Interstate Highway System from falling behind schedule and legislation designed to accomplish this end, but including other provisions as well, was employed as an anti-recessionary measure. The Public Roads Subcommittee of the Senate Public Works Committee and its chairman, Senator Gore, were mainly responsible for formulating the highway bill as an anti-recessionary proposal. On March 6, 1958, Gore had introduced a bill (S. 3414) that provided $11.2 billion over ten years for the interstate highway system to maintain its original schedule and $450 million in matching funds for other federal-aid roads. The Senate Public Works Committee altered this proposal and provided for an additional $200 million for the Interstate Highway program in fiscal 1959, an additional $400 million for primary, secondary, and

88 The House Public Works Committee reported a bill (H.R. 9821) on March 6, 1958, that authorized $900 million for fiscal 1960 and $925 million for fiscal 1961 for the continuation of federal-aid road construction, excluding the Interstate Highway System. The figures authorized for fiscal 1960 and 1961 represented a marginal increase in the figures authorized for federally aided primary, secondary, and urban roads for fiscal 1958 and 1959 by the 1956 Highway Act, $850 million and $875 million, respectively. The committee's figure of $925 million for fiscal 1961 was $25 million above what the Administration had asked. The committee also rejected the Administration's request to charge the $32 million for forest and public lands highways to the Highway Trust Fund and increased the annual authorization for forest development roads from $27 million and $28.5 million. Ibid., p. 141.
urban roads for fiscal 1960 and 1961 and the suspension of the pay-as-you-go provision of the 1956 Interstate Highway Act for fiscal 1959-1960, thereby permitting the spending of $400 million more in fiscal 1959.\(^8^9\)

Although not initially drawn up as anti-recessionary measures, two rivers and harbors bills were employed as responses to the recession. The first, S. 497, was pending before the House in 1958 and could easily be interpreted as a counter-recessionary measure once a recession was underway. After the President vetoed this bill, Congress formulated a second rivers and harbors bill (S. 3910) that he accepted.\(^9^0\)

Democrats also formulated another spending proposal, S. 3502, which provided for additional grants-in-aid for the construction of municipal airports.\(^9^1\)

Finally, Senator J. W. Fulbright, the Chairman of the Senate Banking and Currency Committee, formulated and introduced on March 16, 1958, a Community Facilities bill that increased the lending authority of the Community Facilities Administration, an agency of the Housing and Home Finance Administration, from $100 million to $2 billion to help states and cities finance an anti-recessionary public

\(^8^9\)Ibid., p. 143; Holmans, op. cit., pp. 281-282.

\(^9^0\)Congressional Quarterly Almanac, 1958, p. 304.

\(^9^1\)Holmans, op. cit., p. 282.
works program. This bill authorized the Community Facilities Administration to lend money to states and their political subdivisions at approximately 3 per cent interest for as long as fifty years. Fulbright contended that this was a suitable anti-recession bill because of the many projects already planned but awaiting funding.\(^2\)

**Extension of unemployment compensation benefits**

In response to the recession, the President and Congressional Democrats formulated different plans for extending unemployment compensation. The President's plan, submitted to Congress on March 25, 1958, provided workers who had exhausted their original benefits with a temporary extension in their period of eligibility equal to one-half the length of their regular benefits. This plan benefitted only workers already covered by unemployment compensation; matters of eligibility, disqualification, and amount of benefit were to be left to the states. The federal government was to be reimbursed for the cost of the program by an increase in the tax payments of employers in a state to the federal government, which was to occur four years after the end of the program, or by a state directly appropriating

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the money to the federal government or authorizing a transfer from its credit in the Unemployment Trust Fund. The President said that his program, while of immediate benefit, was no substitute for (1) extending the coverage of unemployment compensation or for (2) appropriate state action extending the duration of and increasing the amounts of benefits, both of which he had previously recommended.\(^93\)

The Democrats believed that a plan introduced by Senator John F. Kennedy and Representative Eugene McCarthy would cope with both the short-term and long-term unemployment problem. This plan required states to pay benefits for at least thirty-nine weeks, a maximum payment of no less than two-thirds the average weekly wage in the state and benefits equal to at least one-half the worker's average weekly wage. Federal funds were to finance the costs of transition from the present plan to the new plan.\(^94\)

**Acceleration of scheduled projects**

Congress and the President also performed the function of formulation in regard to the acceleration of previously scheduled projects. On March 6, Majority Leader Lyndon B. Johnson introduced two resolutions, co-sponsored

\(^93\)Public Papers of the Presidents of the United States, Dwight D. Eisenhower, 1958, pp. 229-230.

by forty-six Democrats and nineteen Republicans, that expressed the sense of Congress that the President should accelerate all civil and military construction projects within the limits of existing authorizations and appropriations. According to Sundquist, these resolutions represented an effort by Johnson to appease Northern Democratic Senators, while at the same time doing almost no damage to his relations with Southern committee chairmen and the Administration. Sundquist views the President's March 8 letter to the Senate and House Minority Leaders as an attempt to say that the Administration had already done what the resolution had called for. While the President may have been preparing a program for acceleration, he had not previously made these actions public and, in his letter of March 8, he warned Congress against going too far.95

In this letter, the President announced what he called the orderly acceleration of long planned and already approved projects that were in the public interest. The Budget Bureau had been instructed to inform departments and agencies to accelerate, where practical, projects for which appropriated funds were available. Acceleration of civil projects was to involve spending nearly $200 million several months earlier than planned. Certain water projects had also been accelerated in the present fiscal year

and the affected agencies were submitting necessary amendments to the budget to continue the higher construction rate in 1959. In addition, the Budget Director had just released an additional $200 million to the Housing and Home Finance Administrator for use by the Federal National Mortgage Association to stimulate construction. The President also stated that the Administration would soon ask Congress to amend the Highway Act to suspend certain expenditure limitations over the next three years, thereby permitting the distribution of an additional $2.2 billion of federal funds to the states, which would be contracted for during the calendar years 1958-1961. Finally, the President reported that the VA had moved to make veterans' home loans more readily available under the G.I. Loan Guaranty program and that the Federal Home Loan Board had begun a program to increase the availability of funds for investment in home mortgages in areas short on such funds.

The President also revealed on March 19, in accord with the general policy laid down on March 8, that he had formulated proposals for accelerating programs by the Housing and Home Finance Agency and the Rural Electrification

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96 These amendments would involve additional appropriations requests of $186 million. Public Papers of the Presidents of the United States, Dwight D. Eisenhower, 1958, p. 209.

97 Ibid., pp. 208-211.
Administration. Under these proposals, the HHFA Administrator was to take all feasible administrative steps to begin construction of projects under the Public Facility Loan program, including the use of Federal financing if needed to avoid delay, and the Budget Director was to release the present reserve balances of $100 million authorization for this program for use as needed in processing applications. The HHFA was also to expedite projects under the $300 million college loan program and in the fields of urban renewal and public housing. With respect to the acceleration of REA projects, the Secretary of Agriculture was to encourage REA borrowers to accelerate needed construction of electrification and telephone facilities (for which $740 million was available, but not yet used, under previously approved loans) and to encourage additional facilities loans to finance farm and rural home installations for electrical services and the purchase of electrical appliances and other equipment.

Communications

The function of communicating information about the recession and the various proposals formulated in response to it involved communications within the Administration, from the Administration to participants in the policy

process outside the Administration and to the public, and from those outside the Administration directed to participants in the Administration. Weekly reports from various departments and reports from the CEA on broad economic trends provided the President with information on the state of the economy. The four member Presidential advisory group, consisting of Anderson, Martin, Saulnier, and Hauge, also performed the function of communicating within the Administration information about the recession and the proposed responses. Meetings of this group provided Saulnier with a means of communicating information about a downturn and about possible governmental responses to the President and to other key members of the Administration. Of course, these meetings also gave Secretary Anderson an opportunity to argue against Saulnier's assessment of the economic situation and to communicate his own views on possible governmental responses.

The President, himself, performed part of the communications function by means of his various messages, statements, and press conference comments. However, President Eisenhower used neither the 1958 Economic Report nor

100 Eisenhower, op. cit., p. 213.

101 Eisenhower reports that the four member group agreed after its October 14, 1957, meeting to keep him informed on governmental measures that might be useful in combatting a tendency toward recession. Ibid.
the Budget Message to convey extensive information about the recession or about the governmental responses the Administration could employ. But his February 12, 1958, Statement and Fact Sheet on the Economic Situation commented on the economy in light of the January unemployment figures and explained the measures the government had taken to cope with the situation. His March 8, 1958, letter to the Congressional Minority Leaders also conveyed information about the steps the Administration had taken to counter the recession. In addition, the President performed the communications function in several of his public appearances, such as his March 18, 1958, appearance before the Sixth Annual Republican Women's National Conference, in which he explained what the Administration had done "in both a sound and timely fashion" to stimulate economic recovery. Finally, at various press conferences, the President commented on current economic conditions, the economic outlook, and responses under consideration or formulated by his Administration or by other participants.

President Eisenhower was also the object of some communications designed to convince him of the seriousness

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102 It has already been pointed out, for example, that the 1958 Economic Report contained nothing comparable to the 1954 Report's discussion of the "arsenal of weapons" available to the government to fight a recession.

103 Public Papers of the Presidents of the United States, Dwight D. Eisenhower, 1958, pp. 219-220.
of the recession and/or of the necessity and appropriateness of certain responses. Arthur Burns, former CEA Chairman, performed the communications function when he wrote the President in early January, 1958, reporting on the gloom at the recent meeting of the American Economic Association.\textsuperscript{104} Statements by Democratic and union leaders about the depth of the recession, of the alleged inaction by the Administration and various proposals to counter the recession may also be viewed as part of the communications function.

\textbf{Mobilization}

Mobilization refers to building either support for or opposition to the proposals formulated in response to the recession. Participants performing this function tended to vary with the particular proposal. Within the Administration, CEA Chairman Saulnier tried to build support for anti-recessionary proposals, while Treasury Secretary Anderson tried to mobilize opposition to several of these proposals, particularly those involving a tax cut or an increase in spending. The President also performed this function by trying to build support for Administration measures and opposition to certain measures advanced by Democrats. In Congress, Democratic sponsors of anti-recessionary legislation and/or the committee responsible for it

\textsuperscript{104}Eisenhower, \textit{op. cit.}, p. 306.
tended to perform the mobilization function for their proposals as Republicans tended to mobilize opposition. In mobilizing support for some of their proposals, Democrats were without the support of their Congressional leadership, who felt caught between Northern activists wanting action and Southern conservative committee chairmen. However, Democratic leaders outside Congress also performed the mobilization function by supporting particular proposals or by criticizing the Administration's response as inadequate.

Monetary policy

Chairman Saulnier was initially responsible for mobilizing support for a monetary policy of easier credit.

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105 Sundquist, op. cit., pp. 22-23. For example, Lyndon Johnson favored the planning of public works so that what he viewed as reasonable and effective projects would be available in late spring, summer, or fall, if needed. Ibid., p. 23. In this connection, Senator Johnson announced his support of Senator Gore's public works bill on March 8, 1958, but he seems to have misunderstood the bill, for, in explaining his position, he discussed an agency to plan public works, whereas Gore's bill provided $500,000,000 for actual spending on public works projects. New York Times, March 9, 1958, p. 1. Anticipating pressure from the Emergency Legislation Conference called by the AFL-CIO, Senator Johnson expressed the intention of expediting legislation, but refused to side with the proponents of immediate action. He specifically referred to the "cabinet" of committee chairmen that aided him and the assurance they gave him that they will expedite action. With regard to a tax cut, Johnson said that he had talked to many people who favored an emergency reduction, including Henry Ford II, but that he himself had reached no firm conclusion and that, in any case, tax measures originated in the House. Sundquist, op. cit., p. 23.
as a response to the recession. While having great difficulty, at first, in convincing other major participants of the need for such a policy, he sought to convince the group of four and at the November, 1957, meeting of this group, appears to have won the support of the President. Once the Administration decided to rely on an easier monetary policy as a response, and especially during the first half of 1958, President Eisenhower mobilized support for this policy by pointing to the credit ease as an example of effective governmental action taken to cope with the recession.

The overwhelming votes by which both houses passed the Emergency Housing Act, S. 3418, suggests that major attempts at mobilization with regard to this proposal were not needed. ¹⁰⁶ Albert M. Cole, the Federal Housing and Home Finance Administrator, had testified on March 4, 1958, against the original Sparkman bill, on which S. 3418 was based, contending that such a drastic measure was not yet warranted. Democratic proponents, including Senate

¹⁰⁶The vote was 86-0 in the Senate and by voice, without debate and under suspension of the rules (which requires a two-thirds vote) in the House. An indication of extensive bipartisan House support was the action of thirteen Republicans, who, while the bill was held on the Speaker's desk, unanimously requested "priority action" because of "the critical nature of the unemployment problem" and further stated that, should the bill be sent to committee, they would recommend executive consideration, rather than public hearings, in an effort to speed action. Congressional Quarterly Almanac, 1958, p. 230.
Majority Leader Johnson, emphasized the bill's contribution to countering recession.\textsuperscript{107}

Saulnier also performed the function of mobilization in organizing support first for a tax cut and then for a spending increase in the President's budget for fiscal 1959. He used the Sputnik launching as an argument against reducing expenditures below the level of fiscal 1958. He also used the fear of a recession to his advantage, contending that a failure to project a higher level of revenue would suggest that the Administration lacked confidence in the future of the economy. Saulnier needed this higher revenue estimate in order to obtain higher spending figures. Treasury Secretary Anderson and Budget Director Brundage sought to mobilize opposition to this proposal.

\textit{Mobilization against tax cut: Agreement between Administration and Congressional Leaders}\n
At one point, the Administration mobilized opposition to a tax cut by obtaining an agreement with Democratic Congressional leaders that neither the Administration nor the Congressional leaders would introduce a tax reduction bill, except after mutual consultation. The effect of such

\textsuperscript{107}\textit{Ibid.}
an agreement was to prevent tax reduction plans from gaining powerful support. At a March meeting with the President, Saulnier, Adams, and the President's Assistant for Congressional Liaison, Major General Wilton B. Persons, Treasury Secretary Anderson suggested that if the Administration stated it would not take precipitous action on a tax cut, he believed that Rayburn and Johnson could control the Democrats on this issue. Anderson and Saulnier drafted an announcement that no decision on a tax cut had yet been made and that none would be made except after clarification of the future course of the economy and after consultation with Congressional leaders. Secretary Anderson then received the approval of Rayburn and Johnson.

Evans and Novak explain the Democratic leadership's agreement by citing the close relationship between Secretary Anderson on the one hand, and Rayburn and Johnson on the other hand. Brown suggests that Rayburn doubted the

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108 This was not an agreement to compromise any future tax reduction proposals, but an understanding designed to prevent either the Administration or the Democratic leadership from "springing" a tax cut plan on the other without prior consultation. Murphy, op. cit., p. 252. The President publicly referred to this agreement at his March 26 and April 9 news conferences. See Public Papers of the Presidents of the United States, Dwight D. Eisenhower, 1958, pp. 234, 294.

109 Murphy, op. cit., p. 252. Rayburn discussed this arrangement with Democrats on the Ways and Means Committee and got their approval. Sundquist, op. cit., p. 27.

effectiveness of a tax cut and that he was under no pressure from Senator Johnson on this issue.\footnote{Brown, \textit{op. cit.}, p. 180.} While Sundquist writes that this agreement may have reflected the Rayburn-Johnson strategy of cooperation with the Administration, he also suggests that Rayburn, angry at Republican charges of Democratic financial irresponsibility, might have perceived this agreement as a way of preventing Democrats from relieving the Republicans of responsibility for the recession and making them suffer the political consequences in the November Congressional elections.\footnote{Sundquist quotes Rayburn: "I can't put the Democratic Party's neck in a noose... It is no part of Congress' duty to take Ike off the hook. If they won't move first, let them take the rap; let them answer for the recession in November." Sundquist, \textit{op. cit.}, p. 28.}

Mobilization of support for tax reduction came generally from outside the Administration—from Democrats in and out of Congress, union leaders and even some business leaders. But, due to their agreement with the Administration, the Democratic Congressional leadership did not support such a move.

**Spending proposals**

Congressional Democrats who formulated most of the proposals for increased spending and the committees that considered them mobilized support for these plans. While...
the Administration made public the fact that it was engaged in public works planning, it did not stress this point as it had in 1954. Rather, President Eisenhower, in his official statements and press conferences, played an important role in mobilizing opposition to major new public works programs by arguing that they would be enormously expensive, ineffective as a counter-recessionary weapon (because of the great lag between the planning and actual construction of projects), create a vast bureaucracy and have an inflationary impact.\(^{113}\)

Senator Sparkman successfully mobilized support in the Senate for the Omnibus Housing bill (S. 4035) by working out with Senator Homer Capehart, the ranking Republican on the Housing Subcommittee, amendments that reduced by $475 million the funds authorized.\(^{114}\) This kind of bipartisan support and committee unity was not achieved in the House. Instead, Republicans on Banking and Currency

\(^{113}\)For example, in his March 8, 1958, letter to Congressional Minority leaders, he expressed concern over a sudden upsurge in talk about WPA pump-priming plans because they involved a lack of faith in the free economy. Public Papers of the Presidents of the United States, Dwight D. Eisenhower, 1958, p. 208. At his April 16, 1958, news conference, he restated his opposition to increased federal spending on unneeded projects because of the time lag and the large expenditures they would require in the future. Ibid., pp. 313-314. At his May 14 news conference, he stated that additional public works would have no effect on the recession and the projects just planned would take two years before they would be under construction. Ibid., p. 402.

\(^{114}\)Congressional Quarterly Almanac, 1958, p. 226.
contended in their minority report that the bill was inflationary and also argued that a joint resolution increasing the college housing loan fund authorization by $200 million and the urban renewal capital grant fund by $250 million was all the legislation that was required. In an effort to obtain the 2/3 majority required for passage after the Rules Committee had refused to grant a rule, supporters made even more changes in the bill and during debate, stressed it was counter-recessionary in the face of opponents' claims that it was inflationary.  

Efforts to mobilize support for the two farm freeze bills came up against antagonism between senators from dairy states and those from non-dairy farm states. Dairy state Republicans, led by Senators Thye of Minnesota and Aiken of Vermont, tried to mobilize support among their Republican colleagues to support the general farm freeze bill. But, due to their limited success, Richard Russell of Georgia led Southern Democrats against the dairy freeze bill.  

After the general farm freeze bill, S.J. Res. 162, passed, the Senate Republican Policy Committee voted 17-14 to ask the President to sign the bill.  

The 17 Republican Senators asking for Presidential approval exceeded by four the previous expression of Republican support for the bill.  

115Ibid., p. 229.  
116Ibid., p. 270.  
117The 17 Republican Senators asking for Presidential approval exceeded by four the previous expression of Republican support for the bill.  

Ibid., p. 271.
Leader Johnson, AFL-CIO President George Meany, Master of the National Grange Herschel D. Newson, and spokesmen for the National Farmers Union also urged Presidential approval while President Charles B. Shuman of the American Farm Bureau Federation urged a veto.\(^{118}\)

Proponents of the highway bill, H.R. 9821, performed the mobilization function by stressing its anti-recessionary quality and its impact of speeding up the lagging Interstate Highway program. Like the Emergency Housing Act, its wide margins of victory (84-4 vote in the Senate and voice vote in the House), suggest wide support. Support for the bill was mobilized before the Senate Committee by testimony from state governors and representatives of organizations of state and local officials concerned with highways, who favored putting the Interstate Highway Program back on schedule for both counter-recessionary and defense reasons. The Committee report also made these points, asserting that the highway bill would create 520,000 new jobs. That debate focused on the billboard provision suggests the absence of opposition on countercyclical grounds.\(^{119}\)

Mobilization attempts with regard to the first rivers and harbors bill, S. 497, involved the question of a

\(^{118}\)Ibid.

\(^{119}\)Ibid., pp. 141-144.
possible Presidential veto, since the overwhelming portion of the bill was in accord with Budget Bureau and Corps of Engineers recommendations. The Speaker, himself, argued in favor of the bill and against the notion that Presidential and Budget Bureau recommendations cannot be changed. However, Republicans argued that the inclusion of projects not cleared by the Budget Bureau or Corps of Engineers entailed the risk of a Presidential veto.\textsuperscript{120}

Mobilization of support in the Senate for the Community Facilities bill was performed by the bill's sponsor, Senator Fulbright, and by the Democratic leadership, who argued that speedy passage (which meant a Senate vote before Easter recess) was necessary for the bill to have a counter-recessionary impact. The House Banking and Currency Committee also argued that the bill would have an immediate economic impact and provide for the construction of necessary and desirable projects that would not otherwise be undertaken. In a further attempt to mobilize support for the adoption of a rule for the bill, Chairman Brent Spence of the House Banking and Currency Committee stated that he would support amendments that (a) reduced the fund to $500 million, (b) raised the interest rate from 2-5/8 per cent to 3-3/8 per cent, and (c) omitted the provision for direct Treasury borrowing, providing instead for a

\textsuperscript{120}Ibid., p. 306.
simple authorization. During House debate on the adoption of the rule, only Democrats, who stressed the bill's contribution to alleviating unemployment and to the construction of useful projects, spoke in favor of the bill.¹²¹

Mobilization of the opposition to the Community Facilities bill was performed mainly by Republican members of Congress and spokesmen for executive agencies. John C. Hazeltine, Community Facilities Administrator, testified before the Senate Banking and Currency Committee that the Administration had not had time to study the bill thoroughly, but that it would probably oppose it because the bill would have relatively little immediate effect and might displace projects that could operate without federal assistance. Appearing before the House Banking and Currency Committee on May 14, 1958, WHIFA Administrator Cole testified against the bill on the grounds that the construction would occur too late to have any effect on the recession and could have an inflationary impact. While never commenting directly in public on the bill, the President did speak out against large-scale public works programs as anti-recessionary measures and also advocated higher interest rates on federal loan programs.¹²²

The success of Senate Republicans in postponing Senate action until after the Easter recess was

¹²¹Ibid., pp. 151-152. ¹²²Ibid., p. 151.
instrumental in mobilizing opposition, since by the time
the House was ready to act, pressure for pump-priming leg­
islation had been greatly reduced, enabling the Republican-
Southern Democratic coalition to kill the bill.\textsuperscript{123} On
April 1, the Senate rejected 41-36 Senator Mansfield's
motion to table Senator Knowland's motion to postpone fur­
ther consideration until April 14, with thirty-nine Repub­
licans and two Democrats opposing tabling and thirty-four
Democrats and two Republicans supporting it. The Knowland
motion to postpone consideration until April 14 was ac­
cepted by a vote of 41-39, with thirty-nine Republicans
and two Democrats favoring postponement and thirty-seven
Democrats and two Republicans opposing postponement.\textsuperscript{124}
Ten Republican members of the House Banking and Currency
Committee mobilized opposition through a minority report
that called the bill a "dud" as an anti-recessionary mea­
sure and expressed concern over a possible future loss of
Congressional control due to the provision for direct bor­
rowing from the Treasury. During House debate, the bill's

\textsuperscript{123}Ibid., p. 151. Republican Senator Prescott Bush
argued that by the time the municipalities could take ad­
vantage of the projects under the bill--next fall or winter
there would hopefully be no recession and have no need
for a crash program. Itbid., p. 152.

\textsuperscript{124}Ibid., p. 151. Senator Strom Thurmond's motion
to amend Knowland's motion by postponing consideration un­
til April 2 instead of April 14 failed on a tie vote of
40-40, 38 Democrats and 2 Republicans voting yes and 38
Republicans and 2 Democrats voting no. Itbid.
opponents warned of the increasing national debt and further contended that much of the construction authorized in the bill was already provided through other governmental programs.125

**Extension of unemployment compensation**

The President and other Administration officials performed the function of mobilizing support for his proposal to extend unemployment compensation and opposition to alternative proposals. On April 13, the President referred to his plan for extending unemployment benefits and called for quick Congressional action to alleviate the hardship of workers and their families.126 When asked at his April 23 news conference to comment on Senator Knowland's statement that he would veto the Ways and Means Committee version of the unemployment compensation bill, Eisenhower said that, while he would make no definite predictions, the committee version differed in important ways from his version and had "grave defects," particularly in its elimination of state influence and neglect of state standards, and would require his "very serious consideration."127 Secretary of Labor

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125Ibid., p. 152.

126Public Papers of the Presidents of the United States, Dwight D. Eisenhower, 1958, p. 306.

127Ibid., p. 336.
James P. Mitchell testified before the Ways and Means Committee on March 28, 1958, in support of the Administration's bill (H.R. 11679) and said that he was not ready at that time to recommend unemployment relief for those workers not already entitled to benefits. After the bill passed the House, Secretary Mitchell recommended Senate passage of the House version to avoid the delay of a conference committee.\textsuperscript{128}

Mobilization of opposition to the Administration's unemployment compensation proposals included opposition by business groups and Southerners as well as support by Democrats and union representatives for proposals formulated by Democrats. Spokesmen for business groups, including the National Association of Manufacturers, the United States Chamber of Commerce, and the American Hotel Association, testified before the House Ways and Means and Senate Finance Committees that the Administration plan was unnecessary and a threat to states rights.\textsuperscript{129}

\textsuperscript{128}Congressional Quarterly Almanac, 1958, pp. 154-155.

\textsuperscript{129}For example, a spokesman for the American Hotel Association testified on March 28 that an extension of jobless benefits was the first step toward complete federal control for the state compensation programs. Ralph T. Compton, the Social Security adviser for the NAM said that the Administration's proposal violated states rights and "warped" an insurance scheme into a "pseudo-relief system." The United States Chamber of Commerce took the view that the states had available reserves and that federal "intervention" would discourage them from doing their job. \textit{Ibid.}, p. 154. A representative of the Chamber testified
Representatives of Southern governors and state employment security bureaus also opposed any federal extension of unemployment benefits before these two committees. The AFL-CIO had strongly backed the original Kennedy-McCarthy unemployment compensation proposals, and before the Ways and Means Committee, Nelson H. Cruikshank, the Director of the AFL-CIO Social Security Department, advocated "federal recovery benefits," equal to approximately fifty per cent of the worker's former weekly wage, for those recently unemployed. He also opposed the House passed version in testimony before the Senate Finance Committee, claiming it would accomplish nothing. Since he argued that federal action was needed precisely because of state inaction, he was particularly critical of the voluntary aspect of the bill. In testimony before the Ways and Means Committee, Democratic Governor G. Mennon Williams of Michigan supported

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On April 1, 1958, the chairman of the North Carolina employment security commission told the Ways and Means Committee that federal financing of emergency unemployment benefits would penalize those states that had wisely planned unemployment financing and built up reserves. On May 14, an assistant attorney-general of Virginia, testifying before the Senate Finance Committee on behalf of Governor J. Lindsay Almond, opposed federal action to extend unemployment benefits but preferred the House passed version to any other. The Director of the Georgia employment security agency also opposed federal action. \[\text{Ibid.}, \text{ pp. 154-155.}\]

\[\text{131} \]

\[\text{Ibid.}, \text{ pp. 153-155.}\]
H.R. 11326, 11327, which provided a uniform sixteen weeks extension and paid workers at least one-half their average weekly wage.\textsuperscript{132}

**Acceleration of previously scheduled projects**

The proposal to accelerate previously scheduled projects enjoyed wide support. In an effort to broaden support, Senate Majority Leader Johnson added to his two resolutions urging a speed-up a provision that commended the Administration for what it had done so far to deal with the recession. And in his various statements, the President stressed the acceleration that he had ordered.

Finally, hearings on the overall unemployment situation held before the House Banking and Currency Committee in April provided Democrats with the opportunity to attack Administration proposals and to advocate theirs. For example, viewing the recession as "very serious," former President Harry Truman proposed a $5 billion tax cut, a five-year government spending program, and endorsed bills to extend unemployment benefits, increase social security payments, create public works projects, and establish a loan program for small business.\textsuperscript{133} In addition, various

\textsuperscript{132}Ibid., p. 154.

\textsuperscript{133}Ibid., p. 155.
Democratic governors testified in support of proposals to increase purchasing power, create public works, and extend unemployment compensation.  

Modification

The modification function in the policy process was generally performed by Congress. Most attempts to amend were directed at those proposals calling for increased spending.

Monetary policy

There were apparently no major attempts to amend the easier monetary policy once it was formulated by the Federal Reserve Board and the Administration. However, some attempts were made in Congress to amend the Emergency Housing bill. On March 6, 1958, the Senate Banking and Currency Committee reported S. 3418 in place of S. 3373, which Senator John J. Sparkman, the Chairman of the Housing Subcommittee, had introduced on February 27. Senator A. S. "Mike" Monroney's amendment to strike from the Committee bill the section that raised the interest rate on G.I. loans from 4.5 per cent to 4.75 per cent failed on a 47-47 vote,

134 Democratic governors so testifying included: A. B. "Happy" Chandler of Kentucky; Frank D. Clement of Tennessee; Foster Furcolo of Massachusetts; Averill Harriman of New York; George M. Leader of Pennsylvania; and Albert D. Rosellini of Washington. Ibid.

135 Ibid., pp. 229-230.
with forty-one Democrats and six Republicans in favor and forty-one Republicans and six Democrats opposed.\textsuperscript{136} In addition, the Senate rejected 45-43 Senator Long's amendment that expressed the sense of Congress that interest rates for housing loans were too high and called on the Federal Reserve to take action to increase the flow of mortgage money so federally backed mortgages would be available at 4.5 per cent.\textsuperscript{137} The House made no attempts to modify, but passed the bill quickly and without debate.

\textbf{Fiscal 1959 budget}

Once formulated, the President's budget encountered no major Congressional attempts at modification in the direction of reducing expenditures.

\textbf{Tax reduction proposals}

Since no major tax reduction bill as such reached the floor of either house, there was obviously no opportunity for modification. But it is perhaps relevant to note the several attempts to amend the Administration's bill extending the corporate income and excise taxes, particularly with regard to those excise taxes dealing with

\textsuperscript{136}The close division in the Senate on this point was further illustrated by Vice-President Nixon's tie breaking vote on a procedural question, i.e., Knowland's motion to table Capehart's motion to reconsider the vote on the Monroney amendment. \textit{Ibid.}, pp. 230, 422.

\textsuperscript{137}\textit{Ibid.}, p. 422.
the automobile and transportation industries, which had been hard-hit by the recession. Most of these amendments failed, with the exception of two dealing with the excise tax on freight and on passenger transportation.  

**Spending proposals**

Many spending proposals formulated by Democrats encountered Republican attempts at modification in Congress. To facilitate Senate passage of the omnibus housing bill, Senator Sparkman, the chairman of the Banking and Currency Housing Subcommittee, agreed to a series of twenty-two amendments, offered by Senator Homer E. Capehart, the

138 On June 5, 1958, the House acting under a rule prohibiting floor amendments, passed the corporation income and excise tax extension bill as reported by the Ways and Means Committee. In the Senate, the Finance Committee rejected Senator Douglas' amendment for one year reductions from 20 per cent to 15 per cent in the tax on the first $1000 of taxable personal income and from 30 per cent to 22 per cent in the tax on the first $25,000 of corporate income as well as his proposal for full scale hearing on tax cuts. The full Senate rejected various amendments offered by Douglas and Senator Kefauver to reduce excise taxes, but accepted two, offered by Senator George Smathers of Florida, defying President Eisenhower and Senate Majority Leader Johnson in the process. One of Smathers' amendments, accepted 59-25, repealed the 3 per cent excise tax on freight shipments; the second, accepted 50-35, eliminated the 10 per cent tax on passenger travel. Only the first amendment repealing the 3 per cent freight tax was finally approved by both houses. The Senate also rejected two amendments, one offered by Republican Potter of Michigan, the other by Democrat McNamara of Michigan, that would have reduced or repealed the excise tax on automobiles. At this time the Senate also defeated an amendment by Fulbright that would have reduced the corporate tax on the first $25,000 of taxable income by $2,000. *Ibid.*, pp. 65, 145, 443-444.
ranking Republican on the subcommittee and later adopted by the Senate. These amendments reduced by $475 million the funds authorized in the bill. Most of these reductions were achieved by reducing the urban renewal authorization from $350 million per year for six years to $300 million per year for six years and the college classroom direct loan fund from $250 million to $125 million. The House Banking and Currency Committee also performed the function of modification by changing several aspects of the Senate version. The House Committee's changes included: an increase in the F.I.A. maximum insurable mortgage; a lowering of down payments; an authorization for the President to increase from $1 billion to $1.5 billion his FNMA special assistance fund for the purchase of FHA and G.I. mortgages if economic conditions so warranted; and an increase in the slum clearance authorization by $500 million a year for two years, as compared to the $350 million per year increase for six years provided for in the Senate bill. After

Capehart's amendments also struck out a section that gave $50 million more to the Federal National Mortgage Association to buy cooperative mortgages and a section that allowed over-income tenants to remain in public housing and buy their units. In addition, Capehart's amendments reduced from 35,000 to 17,500 the number of additional public housing units. Ibid., p. 226.

Under the House Committee version, the maximum FHA insurable mortgages on one- and two-family houses was raised from $20,000 to $27,500 and on three-family houses from $27,500 to $35,000, a more liberal provision than that in the Senate version. While the Senate version did not lower down payments, the House committee version lowered
consultations among members of the Banking and Currency Committee and its housing subcommittee, proponents of the bill agreed to additional amendments in an effort to secure the two-thirds majority for passage, which was made necessary by the failure of the Rules Committee to grant a rule for the bill. These changes included a reduction from $500 million per year for two years to $400 million per year for one year in the increase in urban renewal funds, a reduction from $150 million to $100 million in the fund for direct loans to buy G.I. mortgages, and a reduction from $500 million to $250 million in the President's special FNMA assistance fund. 141

The farm freeze resolution was also amended in Congress. As passed by the Senate, S.J. Res. 162 would have prohibited indefinitely any reduction in price supports or acreage allotments for any farm commodity (except tobacco, which was separately protected) below the 1957 level. However, the House Agriculture Committee amended the resolution to limit the price freeze to one year and the acreage down payments from 15 per cent of the appraised value between $13,500 and $16,000 and 30 per cent of the remainder to 10 per cent of the amount between $13,500 and $18,000 and 25 per cent of the amount above $18,000. The Committee version also differed from the Senate version by deleting the Senate provision that increased the FNMA fund for buying mortgages or cooperative housing by $50 million, providing for no increases in public housing units, and by establishing a Federal Corporation under the Home Loan Bank to take some of the risk on mortgages. Ibid., p. 228.

141Ibid., p. 229.
allotment freeze to two years. On March 20, Republican Representative Ralph Harvey of Indiana attempted to amend the resolution by moving to recommit with instructions to substitute a one-year freeze on dairy price supports alone, but this failed on a strongly partisan vote of 211-173, with 180 Democrats and 30 Republicans in opposition and 19 Democrats and 154 Republicans in favor.\(^\text{142}\)

The highway bill was successfully amended by the conference committee. While most of the amendments offered on the Senate floor dealt with the bill's billboard provisions, those amendments dealing with provisions with countercyclical implications were defeated by non-roll call votes.\(^\text{143}\) The conference committee retained from the Senate version the billboard provision, the provision for additional funds for the Interstate System and the extra $400 million for fiscal 1959 for other federally aided

\(^{142}\)Ibid., pp. 271, 423.

\(^{143}\)For example, the amendment offered by Virginia Democrat A. Willis Robertson to eliminate the provision for acceleration of the Interstate Highway System was defeated by a standing vote. Defeated by voice vote were: Senator Mansfield's amendment to provide a one-year moratorium on requirement for state matching funds on $20 million of federal funds for the Interstate program and $15 million of other federally aided work; Senator Case's proposal to strike the provision increasing to 70 per cent the federal share of the additional $400 million authorization for federal aid highways for fiscal 1959 and revert to the usual 50-50 arrangement; and Senator John Sherman Cooper's amendment that would advance to fiscal 1959 $400 million from the $900 million authorization of additional funds for fiscal 1960, instead of authorizing an additional $400 for fiscal 1959. Ibid., p. 144.
roads. The conference also compromised the Senate change in the matching formula for the extra fiscal 1959 funds to a two-thirds federal, one-third state share and reduced some Senate authorizations for strictly federal roads. It also agreed on the higher House figure of $925 million for federal aid highways in fiscal 1961. After rejecting 222-109 a motion by Republican Representative J. Harry McGregor of Ohio to send the bill back to the conference, the House passed H.R. 9821 by a vote of 300-28 and the Senate accepted the conference version by voice vote. 144

Congressional committees modified Fulbright's Community Facilities bill. His own Banking and Currency Committee reduced the proposed lending fund from $2 billion to $1 billion, raised the effective interest rate from 3 per cent to 3.5 per cent, and added $50 million to the $48 million already authorized for planning advances. 145 The Senate rejected 41-40 his floor amendment to restore the 3 per cent interest rate, with thirty-nine Republicans and two Democrats in opposition and thirty-eight Democrats and two Republicans in support. By comfortable margins, the Senate rejected three amendments that would have reduced the impact of the bill--Senator Strom Thurmond's amendment that would have provided loans when credit was not otherwise available on "reasonable terms" rather than "on

144Ibid. 145Ibid., p. 151.
equally favorable terms or conditions," as the bill then provided, and Republican Senator Prescott Bush's amendment to reduce the loan authorization from $1 billion to $500 million and his other amendment to require that at least 50 per cent of the funds authorized be spent on school construction. 146 On April 16, 1958, the Senate passed the Community Facilities bill by a vote of 60 (forty Democrats, twenty Republicans) to 26 (four Democrats, twenty-two Republicans). 147

The House Banking and Currency Committee also performed the function of modification when it voted 16-6 on June 4 to substitute a committee draft for the Senate version. The Committee version restored the $2 billion loan program, reduced the interest rate to 2-5/8 per cent, and prohibited loans to state agencies, loans for school construction and loans for constructing facilities that would compete with privately owned utilities. Despite Banking and Currency Chairman Brent Spence's willingness to support further amendments in order to secure passage, the House voted 187-173 against an open rule for the bill, thus

146 Ibid., pp. 152, 428. The vote on both the Thurmond amendment and on the Bush amendment to reduce the loan authorization fund was 33-53. Ibid., p. 152. The Senate adopted 60-27 Senator Lyndon Johnson's motion to table the Bush amendment on school construction. Ibid., p. 428.

147 Ibid., p. 188.
killing it.148

Extension of unemployment compensation

Democratic attempts to modify the President's proposal for the extension of unemployment compensation were ultimately unsuccessful. The House Democratic leadership supported an alternative sponsored by Ways and Means Committee Chairman Wilbur Mills and Majority Leader John W. McCormack, and the Ways and Means Committee reported a bill (H.R. 12065) on April 23, that was similar to the Mills-McCormack plan.149 The Committee bill, retroactive to July 1, 1957, and in effect until January 30, 1959, provided sixteen weeks extended benefits for workers already covered as well as sixteen weeks benefits for workers not currently covered, e.g., domestic and agricultural workers, state and local employees, and employees of small firms. Federal payments were to be in the form of grants, not loans, to the

148Spence indicated he would accept the following amendments: a reduction in the fund to $500 million, an increase in the interest rate from 2-3/8 per cent to 3-3/8 per cent, and a deletion of direct borrowing authority and instead provide for simple authorization. Ibid., p. 152. For roll call on the rule, see ibid., p. 404.

149The Mills-McCormack plan provided for an additional 16 weeks benefits for workers who had exhausted these benefits. These additional benefits were to equal at least one-half the worker's average weekly wage but be no more than two-thirds the average weekly wage for all employees in the state. This plan mandated no change in a state's eligibility requirements, but provided that the money be given, not loaned, to the states. Ibid., p. 154.
states and the Committee estimated the total cost of the program at approximately $1 billion to $1.5 billion. But, on May 1, by a 223-165 vote, a Republican-Southern Democratic coalition substituted for the Committee version an amendment, offered by Democratic Representative A. Sidney Herlong of Florida, that embodied most of the President's recommendations, except that state participation would be optional. The House then passed this Administration substitute by an overwhelming vote of 372-17.  

Senator Democrats were unsuccessful in their attempts to change the bill into a form similar to that of the House Democratic leadership. On May 22, the Senate Finance Committee reported H.R. 12065 as passed by the Senate. Senators Douglas and Robert S. Kerr filed a minority report on May 26 that argued that neither the short-run nor the long-run needs of the unemployment situation would be met by the Senate version and recommended most of the amendments that were later rejected on the Senate floor. Senator John F. Kennedy offered three amendments designed to increase coverage and benefits. All three were handily defeated. His amendment extending benefits for sixteen weeks and

150 Sixty Democrats and 163 Republicans supported the Herlong Administration substitute, while 148 Democrats and 17 Republicans opposed it. Ibid., pp. 154-155; Holmans, op. cit., p. 282.

151 Congressional Quarterly Almanac, 1958, p. 155.
providing for federal administration if the states did not act received the largest support; it was defeated by a vote of 36-47. Republican Senator John Sherman Cooper's amendment to provide for the federal administration of temporary benefits was also defeated by the comfortable margin of 26-54.152

Representation

During the 1958 recession, the function of representation in the policy process was performed by Democrats, interest group leaders, and various state and national officials as they criticized or supported the proposals that were formulated to meet the recession. Democrats in and out of Congress represented the views of their constituents

152The first Kennedy amendment that extended unemployment coverage to employees where there are one or more workers, increased weekly unemployment benefits, set a uniform 39 week duration period for payments and provided benefits for one year for all the unemployed, to be financed by federal grants, was rejected 21-63, with 18 Democrats and 3 Republicans in favor and 23 Democrats and 40 Republicans in opposition. A second Kennedy amendment to extend the duration of benefits by 16 weeks, to provide for federal administration if the states do not act, and to forgive states from repaying the federal government if they liberalize their program or if their unemployment funds were empty was rejected 27-56. His third amendment had the support of 24 Democrats and 12 Republicans and the opposition of 14 Democrats and 33 Republicans. Greater support was evident for Senator Russell Long's amendment to increase public assistance payments for the aged, blind, and disabled by about $5 per month by increasing the maximum federal-state monthly payment per person to $70 by increasing the federal share. This amendment was defeated on a 40-40 tie (34 Democrats and 5 Republicans aye; 6 Democrats and 35 Republicans no). Ibid., pp. 434-435.
--the unemployed or the potentially unemployed--when they criticized the adequacy of the Administration's general response as well as the adequacy of specific proposals. In October, 1957, the Democratic Advisory Council attacked "the theory, popular in Republican circles, that a little depression is a good thing." In February, 1958, the Democratic National Committee attacked the President for his "Hoover-like approach" to "the depression now gripping the country." Some Democrats even attacked the Administration for actually "planning" a recession. For example, Senator Hubert H. Humphrey of Minnesota referred on January 31, 1958, to "the planned, premeditated, predesigned recession of this administration" and, on March 6, to the columnists and statements of Administration spokesmen that suggested that the Administration had deliberately risked recession in an effort to moderate the 1957 inflation.

And in an attempt to stimulate governmental action, former President Harry S. Truman stated, in February, 1958, that those who say a little bit of recession is good for the economy resemble those who claim a little bit of war is beneficial.

153 Sundquist, op. cit., p. 21.
155 Sundquist, op. cit., pp. 21-22.
Union leaders also performed the function of representation in the policy process by advocating quicker and more extensive Administration action in general and by supporting or opposing particular proposals. In his memoirs, Eisenhower states that United Steelworker's President David MacDonald called for massive federal spending and that the AFL-CIO Executive Council called for governmental action before all the facts were available. On March 18, 1958, AFL-CIO President George Meany urged further action, including a tax cut, on Speaker Rayburn and Majority Leader Johnson, telling them, as he had told the President the previous week, that March showed no sign of improvement. The AFL-CIO support for the initial Kennedy-McCarthy plan for unemployment compensation and the testimony of Nelson Cruikshank, the AFL-CIO's social security department director, against the Administration's unemployment compensation plan also are examples of unions performing the representation function.

Business groups also represented the views of their constituencies in the policy process during the 1958 recession. While generally opposing programs involving large amounts of governmental spending, certain business groups did favor some counter-recessionary programs, especially

those that directly affected their businesses. Some business groups and spokesmen, such as the Committee for Economic Development, a Rockefeller Brothers Fund report, the president of the U.S. Chamber of Commerce, the president of General Motors, the chairman of the board of J. P. Morgan and Company, even favored a tax cut while the Administration opposed one. But the Chamber of Commerce and the National Association of Manufacturers opposed even the Administration's plan for the extension of unemployment benefits.

Various types of state public officials also performed the representation function. In general, Northern Democratic governors tended to support proposals calling for a more expanded federal role in recovery efforts. Even Border State or Southern Democratic governors supported some expansionary programs, such as the increase in the highway program. Southern state officials generally opposed proposals for extending unemployment compensation. Organizations of state and county highway officials supported proposals to expand the highway program.

Legislators may also be thought of as performing the function of representation when they advanced proposals that reflected the interests of their constituents. For

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160Congressional Quarterly Almanac, 1958, pp. 154-155.
example, legislators from Michigan tried to repeal the excise tax on automobiles and auto accessories. Farm state Senators tried to pass legislation to freeze farm price supports.

Finally, the President and other participants from the executive branch who advocated a cautious response to the recession may also be viewed as performing the representation function. They perceived their behavior to reflect the views of those who they thought approved of their handling of the recession of 1954.

**Prescription**

The function of prescription, i.e., the authoritative selection of proposals formulated in response to the recession, was generally performed by Congress and the President jointly, but in some cases was performed solely by the President or by the Federal Reserve Board. As in 1954, the Administration's decision to rely on monetary policy to respond to the recession is an example of prescription by the President. However, because of its legal autonomy in monetary policy, the Federal Reserve Board must be viewed as having prescribed specific monetary policy. Congress and the President jointly prescribed the Emergency Housing Act. This bill passed the Senate unanimously on March 12 and the House by voice vote without debate on March
The President reluctantly signed the act on April 1, 1958. He approved of some provisions, but criticized the $1 billion lending program, which he believed private investors could supply if Congress would permit an increase in the interest rates on government guaranteed mortgages.¹⁶²

The President and Congress jointly prescribed the spending levels in the fiscal 1959 budget. Holmans points out that Congress passed the regular appropriations bills with unusual speed and with unusually small cuts.¹⁶³

Prescription of a major tax reduction also requires both Congressional and Presidential action. The agreement between the Administration and Congressional leaders with respect to the tax bill is, no doubt, part of the explanation for the failure of the government to act on a tax bill in 1958.

Congress and the President jointly performed the function of prescription for several proposals dealing with increased spending. The Highway bill passed the House by


¹⁶² Sundquist, op. cit., p. 24; Public Papers of the Presidents of the United States, Dwight D. Eisenhower, 1958, pp. 257-258, 267-268. Despite the President's reservations about the bill, the President quickly authorized the expenditure of funds provided for under the Act. Holmans, op. cit., p. 281.

¹⁶³ Holmans, op. cit., p. 280.
voice vote on March 13 and the Senate by 84-4 on March 27. After rejecting by 109-222 a motion to send the bill back to conference, the House approved the conference version by 300-28 on April 3 and the Senate accepted the conference bill by voice vote the same day. Eisenhower signed the Highway Act on April 16, but had "serious misgivings" about the 2-1 federal-state sharing formula for the federally aided, non-Interstate Highway roads. This represented a departure from the traditional 50-50 formula for such programs. He also disapproved of the provision for federal advances to the states to finance most of the states' one-third share of the additional highways authorized under the program. But the President signed the bill because of (a) the desirability of speeding up construction on the Interstate System, (b) the contribution of highway construction to increasing employment, and (c) the temporary nature of the undesirable provisions. After Eisenhower had vetoed a rivers and harbors bill on April 15, the House and Senate overwhelmingly passed and by voice vote later accepted the conference version of a second bill, which the President signed on July 3, stating that it had overcome practically all the shortcomings of the earlier

164 Congressional Quarterly Almanac, 1958, pp. 140, 144.

165 Public Papers of the Presidents of the United States, Dwight D. Eisenhower, 1958, pp. 322-323.
Congress and the President also prescribed the bill extending unemployment compensation benefits. While the votes for final passage were overwhelming, the divisions of vote on several amendments suggest that support for various elements of the bill was much less widespread. The President signed the unemployment compensation extension bill on June 4, 1958.

Finally, the President performed the function of prescription with regard to the acceleration of previously scheduled projects. The two Congressional resolutions on this matter were without binding legal force.  

\textbf{Veto}

The President and Congress each separately performed the veto function, i.e., the authoritative rejection of proposals put forth in response to the recession.

\textbf{The President and the Veto function}

The President performed this function with respect to the general farm freeze bill, the first rivers and harbors bill, and the airport construction bill. President Eisenhower vetoed Senate J.R. 162, the general farm freeze bill.  

\begin{footnotes}
\item[166] Ibid., p. 521.
\item[167] Congressional Quarterly Almanac, 1958, p. 308.
\end{footnotes}
bill on March 31, 1958, arguing that the resolution would increase surpluses, restrict market growth, postpone the end of agriculture controls and ignore the problems of the small farmer.\textsuperscript{168} He also vetoed the first rivers and harbors bill on April 15, 1958. He objected that money was appropriated for projects in which local participation was not high enough, for other projects whose economic benefits were not great enough, and for still others which the Corps of Engineers had recommended against.\textsuperscript{169} In his Veto Message, he ridiculed the notion that the bill would stimulate economic recovery and contended instead that there was already a backlog of $5 billion worth of valuable public works and that the projects in the bill, with few exceptions, could not be started for several months or even several years.\textsuperscript{170} Finally, on September 2, Eisenhower

\textsuperscript{168}Public Papers of the Presidents of the United States, Dwight D. Eisenhower, 1958, pp. 250-251. For the text of his radio-TV speech explaining his reasons for vetoing the general farm freeze bill, see \textit{ibid.}, pp. 255-256.

\textsuperscript{169}Ibid., p. 307. In his memoirs, the President claimed that the bill authorized 14 projects at a total cost of $168 million in cases where local participation did not measure up to possible local benefits, four projects with an estimated cost of $27 million for which adequate surveys and plans did not exist, and three projects with an estimated cost of $115 million which the Corps of Engineers recommended against on the grounds that they made no economic sense. Eisenhower, \textit{op. cit.}, p. 306.

\textsuperscript{170}Eisenhower, \textit{op. cit.}, p. 306; Public Papers of the Presidents of the United States, Dwight D. Eisenhower, 1958, p. 309.
vetoed S. 3502, the airport construction bill, on the grounds that airports were a state and local responsibility, to be properly aided by the federal government only during the period of aviation industry growth. He believed that the federal government should begin an orderly withdrawal from this field, while the bill would have sharply increased the level of the existing program. 171

Congress and the veto function

During the 1958 recession, Congress performed the veto function with regard to Douglas' two tax cut proposals, the dairy freeze bill, the Omnibus Housing bill, and the Community Facilities bill. The Senate rejected one of Douglas' tax reduction plans on March 13 by a vote of 71-14 and a second on June 18 by a vote of 65-23. 172 On March 30, the Senate authoritatively rejected Senate J.R. 163, the dairy freeze bill, by a vote of 43-50. This rejection reflected a division between the predominately Republican dairy state senators and the predominately Democratic non-dairy farm state senators. Since Southern Democrats resented the lack of Republican support for the general farm price freeze bill, they decided not to support

171 Public Papers of the Presidents of the United States, Dwight D. Eisenhower, 1958, p. 674.

the bill that froze dairy prices. The House performed the veto function regarding the Omnibus Housing bill when it failed by six votes, on a 251-134 roll-call, to muster the two-thirds majority necessary for passage under the suspension of the rules. Voting in favor of passage were 185 Democrats and 66 Republicans and in opposition were 23 Democrats and 111 Republicans. The House Rules Committee also played a role in vetoing this bill, since its refusal to grant a rule (on the grounds of insufficient time for consideration before adjournment) necessitated the attempt to suspend the rules. The House also performed the function of veto with respect to the Community Facilities bill when it defeated by 187 (151 Republicans and 36 Democrats) to 173 (151 Democrats and 22 Republicans) a resolution for an open rule. The Senate's success in delaying a vote until after the Easter recess permitted the opposition in the House to grow.

173 Led by Edward J. Thye of Minnesota and George Aiken of Vermont, the dairy state Republican Senators had been able to persuade only a total of 11 Republicans to vote in favor of the general price freeze bill. On the dairy freeze bill, nine Republicans--most of them from dairy states--who had voted against the overall price freeze, switched and voted in favor of the dairy bill. But, led by Senator Richard Russell of Georgia, 15 Southern Democrats who had supported the general price freeze bill switched and opposed the dairy freeze bill. Congressional Quarterly Almanac, 1958, p. 270.

174 Ibid., p. 408. 175 Ibid., p. 229.

176 Ibid., p. 404.
Conclusions

Participants in the policy-making process formulated a variety of proposals in response to the recession of 1958 --some of which were adopted and some of which were not. In some cases, participants took measures that were advanced for reasons unrelated to the recession (e.g., the highway bill and the rivers and harbors bill) and interpreted them as countercyclical measures. Eisenhower explained the Administration's failure to formulate a tax cut by stating that, unlike 1954, there had been no tax cut in preparation prior to the onset of the recession. There also appeared to be a connection between a participant's definition of the issue, on the one hand, and his formulation of proposals in response to the problem, on the other hand. For example, CEA Chairman Saulnier, who was perhaps the first major participant to define the issue as a recession calling for governmental action, advocated specific proposals for a response before most other participants even perceived a recession. Once most of the major Administration policy-makers agreed that a recession was underway, their definition of the issue did not permit any serious consideration of a public works program, for they believed that such a program would be ineffective against the conditions they perceived. In order for them to propose a tax cut, their definition of the issue would have had to change also.
The functions the President performed may be divided into two sets—one related to communications, the other to the President's constitutional duty to sign or veto legislation. Because of the President's place in the political system, and specifically in this particular regard, because of his obligations stemming from statute and/or custom to prepare the budget, the Economic Report, and a legislative program, the President is in a good position to perform the functions of definition of the issue, communications, and mobilization in the making of counter-recessionary policy. The President shared with Congress the performance of the prescription function for certain proposals requiring legislative action and alone performed the function for the acceleration of already scheduled projects. Eisenhower also performed the veto function with respect to certain spending proposals that he considered to be unnecessary and without any counter-recessionary impact.

CEA Chairman Saulnier was also an important participant who performed several functions in the policy process. Saulnier and his Council colleagues performed the initiation function within the Administration. He also played an important part in definition of the issue, formulation, communication, and mobilization. Given the Council's economic expertise, its role in communications and mobilization on economic issues is not unexpected. Saulnier's important role in the formulation of responses to the recession is
perhaps a bit more surprising. He was the first major participant in the Administration to propose an easier monetary policy. He was also instrumental in proposing higher spending levels in the fiscal 1959 budget and later, in the Administration, supported the notion of a tax cut. In performing these functions, Saulnier stressed the importance of recognizing the existence of a recession and argued in favor of specific countercyclical proposals to meet the recession.

Within the Administration, Treasury Secretary Anderson performed many of the same functions as Saulnier, e.g., definition of the issue, formulation, communications, and mobilization, but generally took a policy position opposite that of Saulnier. Anderson, the representative of the Treasury, was slower than Saulnier, first, to appreciate the importance of switching attention from inflation to a possible recession and, second, to advance countercyclical proposals.

Within the Administration, some functions were performed jointly by the President together with his group of four economic advisers, which included Saulnier, Anderson, Martin, and Hauge. This group was particularly important in performing the functions of definition of the issue and communications. It was specifically established with the intention of facilitating the flow of economic advice to the President.
A final set of participants who performed important functions were members of Congress. Congressional Democrats, particularly committee and subcommittee chairmen, formulated most of the proposals for increased spending. The President and his advisers generally took a most unfavorable view of this type of proposal. Congress also performed the prescription function (jointly with the President) and, in some cases, the veto function.

Lindblom's concept of partisan analysis appears to be useful in describing the political behavior of several participants in the policy process. Lindblom understands partisan analysis to mean a method of persuasion by policy analysis, by which one policy-maker finds a way to show that a policy he desires serves the values of another policy-maker. Saulnier typically used this method of persuasion in his performance of the initiation, definition of the issue, mobilization, and formulation functions. As formulated by Lindblom, partisan analysis refers to persuasion aimed at obtaining agreement on a policy and, therefore, might not seem to apply to Saulnier's behavior in performing the functions of initiation and definition of the issue, where his major concern was to obtain agreement on the existence of a particular economic situation that required governmental action. Yet, Saulnier used the same techniques of persuasion in seeking agreement on the situation as Lindblom's concept implies a participant would employ in seeking
agreement on a policy. Saulnier tried to convince others that his definition of the situation was realistic and that it would be in their political interest to recognize and act upon it. In attempting this, he relied on arguments based on economic data and projections of future trends. Lindblom stresses policy makers' uncertainty and their consequent need for information. Because of his expert knowledge of economics and current economic trends and his lack of independent political power, partisan analysis was a method of persuasion particularly well suited to Saulnier. The techniques of partisan analysis can be used in seeking agreement on the definition of the issue as well as on policies. Partisan analysis was also used by other participants as they tried to convince others to agree to their proposals.

Participants performing the mobilization function used partisan analysis as one of their techniques of persuasion, but also engaged in several additional kinds of behavior and strategies as they tried to build support for or opposition to particular proposals. Secretary Anderson and other members of the Administration mobilized opposition to a tax cut by means of their agreement with Democratic Congressional leaders. In effect, this strategy prevented any third party, such as Senator Douglas, from building support for his tax cut proposal. This might be viewed as an illustration of Bachrach and Baratz's point
about issues being prevented from entering the political arena. In an attempt to broaden the base of support for the Omnibus Housing Act, Senator Sparkman worked out with Senator Capehart, the ranking Republican on the housing subcommittee, a set of amendments that reduced authorizations by $475 million and enabled the bill to enjoy bipartisan support and committee unity in the Senate. House proponents of the bill made further changes but were still unable to win the two-thirds majority required. A similar tactic was also unsuccessful in the House with regard to the Community Facilities Act, as Chairman Brent Spence indicated his willingness to accept amendments in order to secure House acceptance of a rule for the bill. In each case, opponents of the bill used parliamentary procedures to their advantage, in the case of the housing bill requiring passage under suspension of the rules and in the case of the Community Facilities bill delaying Senate action long enough to permit strong enough opposition to build in the House to defeat the measure on a procedural vote.

The modification function was generally performed in Congress, both in committees and on the floor. A rather strong partisan division underlay most attempts at amendment, with Democrats generally favoring increased spending, and Republicans, sometimes with Southern Democratic support, tending to favor more restraint.
Personal ideology seemed to influence participants' behavior in performing various functions. In some cases, a participant's ideology affected his selection of a function to perform. For example, Saulnier's personal ideology evidently included the notion that he had a responsibility to call the possibility of a recession to the attention of the President as well as to advance counter-recessionary proposals. Moreover, participants' personal ideologies also seemed to influence the proposals they would advance and support. These ideologies included a conception of the relative concern for inflation over recession and of the types of governmental responses deemed appropriate as counter-recessionary measures. To some extent, personal ideologies reflected differences in party ideologies as Democrats tended to be more concerned with recession over inflation and to favor fiscal responses and Republicans tended to be more concerned with inflation and to favor monetary policy, acceleration of already scheduled spending, and possibly a tax cut over broad spending programs as appropriate counter-recessionary proposals.
CHAPTER IV
THE PRESIDENT AND THE 1964 TAX CUT

This chapter will analyze Presidential behavior in the process by which the Revenue Act of 1964 was formulated and adopted. In January, 1963, President Kennedy presented a package of tax proposals for reform and reduction that he said were necessary to cope with the chronic problem of inadequate economic growth. These proposals amounted to a net tax reduction of $10.2 billion (an $11 billion reduction in individual income taxes, a $2.6 billion reduction in corporate taxes, partially offset by reforms expected to generate $3.4 billion in revenue). As signed by President Lyndon B. Johnson on February 26, 1964, the Revenue Act, devoid of most of the reforms initially proposed by President Kennedy, provided for a net total reduction in corporate and personal income taxes of $11.5 billion over a two-year period (a $7.7 billion reduction in 1964 and an additional $3.8 billion reduction in 1965). President Kennedy's advocacy of this major tax reduction in order to stimulate an economy already in recovery, but suffering from inadequate economic growth, in contrast to the simple countercyclical purpose of countering a recession, may be viewed as an innovative use of fiscal policy and of the
President's economic responsibility.¹

The Political and Economic Context

President Kennedy's economic ideology

During his Presidency, John F. Kennedy developed a rather sophisticated understanding of modern economics that

¹There is not universal agreement on the significance of this tax cut. E. Ray Canterbery calls the preparation of the tax cut "the most significant single economic policy development" in the Kennedy Administration. E. Ray Canterbery, Economics on a New Frontier (Belmont, California: Wadsworth Publishing Co., Inc., 1968), p. 263. Edward Flash describes the 1963 tax proposals as symbolizing the establishment of a new economic tradition, as policymakers recognized the utility of deficits in stimulating economic growth. Edward S. Flash, Jr., Economic Advice and Presidential Leadership (New York: Columbia University Press, 1965), p. 271. But Hobart Rowen argues that the Administration's overall performance on the tax bill was "less than adequate" because it passed up a rare opportunity to insist on tax reforms and should have increased spending along with cutting taxes. Hobart Rowen, Kennedy, Johnson and the Business Establishment (New York: G. P. Putnam's Sons, 1964), pp. 247-248. Herbert Stein suggests that, on the basis of thirty years experience, analysis and discussion, a tax cut in 1961, given the economic conditions then prevailing, was not only possible but probable. He also suggests that the outcome of the tax cut was more in doubt than it should have been, pointing out that there was no example within the last fifty years of Congress failing to enact a tax cut proposed by the Administration, while there were examples in the post-World War II era of Congress both achieving and not achieving tax reductions that it proposed against Presidential opposition. Stein contends that Eisenhower or any pre-Keynesian "in a position of responsibility would probably have recommended a tax reduction if confronted with the problem of 1961-1963." The difference was that Kennedy, who was less firmly wedded to older economic ideas, would come to this position more certainly and more quickly. Herbert Stein, The Fiscal Revolution in America (Chicago: University of Chicago Press, 1969), pp. 373-375, 455-456.
he was able to use to further the goals of increased economic growth and reducing unemployment. However, he clearly did not have this kind of understanding at the time that he assumed the Presidency, and Seymour Harris and Walter Heller agree that he did not easily accept modern economics, but had to be shown. His rather meager formal college education in economics appears to have had no major impact on his economic thinking. As the first President who was not a pre-Keynesian, he did not have to "unlearn" traditional economics in order to accept modern economics.

John Kennedy campaigned as a fiscal conservative in 1960. He promised to increase federal spending, not because private spending was inadequate but because he preferred

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3Harris, op. cit., p. 5; Heller, op. cit., p. 30.

4Kennedy apparently liked to tell his economic advisers that his grade in his one college economic course--an introductory one--was a C. Sorensen, op. cit., p. 442. Schlesinger, who may have checked, writes that the grade was actually a B, his highest grade the freshman year, but also notes that Kennedy recalled his grade as a C or, at least, that he liked to tell his economists this. Schlesinger, op. cit., p. 621.

5Stein, op. cit., p. 375.
spending on public purposes to private spending for items he considered unworthy. The Democratic Party platform and its nominee spoke of increased public spending, but in the context of a balanced budget, except during a recession.  

As a legislator from Massachusetts, Kennedy's major concern had been with domestic policy. Beginning with the preparation for his Senate campaign in 1952, he developed a particular concern with economic problems. But as a representative of a state experiencing problems associated with declining industries, his orientation was towards a structural approach to unemployment rather than a broader fiscal or monetary policy concern.

In a study comparing the economic views of the two major parties, Seymour Harris reports finding only four 1960 campaign statements of Kennedy that indicated his general value system or ideology. These statements were quite general, such as, for example, stating that a liberal is someone who is open to new ideas and concerned about the

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6 Ibid., pp. 376-379.

7 See, for example, Harris, op. cit., p. 17; and Schlesinger, op. cit., p. 622. Schlesinger appears to credit Kennedy with a somewhat more sophisticated economic background than other writers do. For example, to demonstrate Kennedy's early understanding of Keynesian principles, he refers to his appearance in 1952 on "Meet the Press," in which he stated that a maintenance of government spending or a tax reduction would be the proper policy to follow during deflation, that the budget should be unbalanced if unemployment continued in the aftermath of deflation, and that government spending would be one method of meeting a recession. Schlesinger, op. cit., p. 621.
welfare of the people, that the two parties differ not on ends but on means and that both candidates oppose recession, needlessly unbalanced budgets, and centralized government. 8

Canterbery suggests that Kennedy had two "odd fetishes": business confidence and gold. 9 He also argues that Kennedy was not a devout Keynesian, but rather leaned towards Keynesianism during periods of recession and slow growth and towards classical economics during inflation and balance-of-payments crises. 10

Kennedy's economic advisers played an important part in developing his understanding and acceptance of modern economics. CEA Chairman Heller believes that much of

8Seymour E. Harris, The Economics of the Political Parties (New York: The Macmillan Company, 1962), pp. 50-51. The campaign statements cited were Kennedy's September 14, 1960, speech to the New York Liberal Party, his September 27, 1960, Canton, Ohio, speech, his October 20, 1960, speech to reassure businessmen, and his November 2, 1960, Oklahoma City speech. In his October 20 speech he said that "both candidates are equally opposed to recession, unjustified or unnecessary government intervention in the economy--to needlessly unbalanced budgets and centralized government. I do not believe that Washington should do for the people what they can do for themselves through local and private effort. There is no magic attached to tax dollars that have been to Washington and back." Ibid.

9Canterbery, op. cit., p. 210. This concern for gold was no doubt reinforced by threats, reported in the New York Times in the summer of 1960, that European bankers were threatening to withdraw gold if he fired Federal Reserve Board Chairman William McC. Martin. Harris, The Economics of the Political Parties, pp. xxvi, 119-120.

10See Canterbery, op. cit., chapters 3, 4.
Kennedy's "allergy" to modern economics derived from a sensitivity to Republican charges of fiscal irresponsibility and to a belief that a tax cut was inconsistent with the call for sacrifice in his inaugural address. Kennedy remained unconvinced of the need for increased spending for welfare for several reasons, including the burden of national security, the political liability of large deficits, and the belief that no greater deficits were tolerable above those generated by the more generally acceptable mechanism of tax reduction. Flash argues that it was the Council of Economic Advisers, primarily through Chairman Walter Heller, who "encouraged Kennedy to develop a sophisticated economic philosophy which he had not previously possessed and, in so doing, transformed an instinctive conservative into a conscious liberal."  

Kennedy was at first inclined to be critical of the Federal Reserve's monetary policy, but he became more sympathetic to that policy as his concern over the threat

\[\text{11Heller, op. cit., p. 30. Heller reports the shock of the President's economic advisers when they were told that the anti-recession battle would have to be fought in the context of a balanced budget, but they were able to water down this commitment in the State of the Union Message. Ibid. See also Harris, Economics of the Kennedy Years, p. 20.}

\[\text{12Ibid.}

to the dollar increased. This was reflected in various messages on the economy during his first year in office. For example, he stated the need for low long-term interest rates, but warned against reducing short-term interest rates in view of the danger to the dollar in his February 2, 1961, message on economic recovery. And in his March 24, 1961, message on budget and fiscal policy, he stated that budget and tax policy must assume a greater responsibility due to the limits placed on the use of monetary policy by the balance of payments problem.\textsuperscript{14}

While Kennedy accepted an economic system based on free enterprise and developed policies to stimulate investment and economic growth, many businessmen perceived him as anti-business.\textsuperscript{15} In speeches to business groups during his Presidential campaign, he tried to counter this impression. He argued that there was no inevitable conflict between business and a Democratic Administration, that he favored no change in the constitution of the Federal Reserve Board, and that it should retain its independence in day-to-day operations. He admitted a Democratic Administration would

\textsuperscript{14}Harris, \textit{Economics of the Kennedy Years}, p. 111.

\textsuperscript{15}In his book on Kennedy's relationship with business, Hobart Rowen contends that he was not anti-business, but rather that he catered to the needs of business, especially following a short post-election period during which he thought he might reduce special favors to business. Rowen, \textit{op. cit.}, pp. 15-16.
follow a more flexible monetary policy than the Republi-
cans, but would not rule out a strict monetary policy dur-
ing "extravagant booms." Kennedy also stated his view that
Presidential leadership included long-range coordination of
economic policies and a responsibility to attempt to pursue
with business and labor wage and price policies consistent
with price stability. He also stressed that his Adminis-
tration would encourage plant modernization (through tax
revision including an accelerated depreciation allowance),
public development of natural resources and basic re-
search. While Kennedy desired to sponsor legislation
that would aid business, he clearly did not share the same
attitudes and values of many businessmen. He regarded many
businessmen as greedy and did not necessarily equate suc-
cess in business with great mental ability. On the other

16 For a discussion of these campaign speeches, see

ibid., pp. 29-32.

17 At times, Kennedy privately expressed the view
that some businessmen were trying to do in his Administra-
tion politically. Schlesinger reports that in early June,
1962, Kennedy told him, Kenneth O'Donnell, and Theodore
Sorensen the following: "I understand better each day
... why Roosevelt, who started out such a mild fellow,
ended up so ferociously anti-business. It is hard as hell
to be friendly with people who keep trying to cut your
legs off... There are about ten thousand people in the
country involved in this--bankers, industrialists, lawyers,
publishers, politicians--a small group, but doing every-
thing they can to say we are going into a depression be-
cause business has no confidence in the administration.
Well, we're not going to take that." Schlesinger, op. cit.,
p. 641.
side, businessmen regarded him as aloof and more at home with intellectuals and artists than with businessmen. 18

Kennedy's concept of the Presidency

Kennedy's conception of the President's role was based on the Franklin D. Roosevelt model of the strong president. He indicated to Schlesinger that he wanted to be a strong President in the tradition of Roosevelt, and that he admired F.D.R.'s ability to dominate the government. 19 Schlesinger believes that, like F.D.R., Kennedy easily identified himself with the office and with the active exercise of its powers. He had wanted to be President, loved being President, and never complained about the burdens or loneliness of the office. Schlesinger suggests that Kennedy's greater involvement in the details of administration (in contrast to Roosevelt's detachment and accompanying reduced responsibility for mistakes) was due to a determination to prevent catastrophic consequences

18See ibid., p. 638; Rowen, op. cit., pp. 291-292.

19Kennedy also told Schlesinger that he found his account of Roosevelt's administrative methods in The Coming of the New Deal to be very interesting. Schlesinger, op. cit., p. 119. Schlesinger also refers to Kennedy's speech at the National Press Club in early 1960, in which he rejected the "restricted concept of the Presidency" and argued instead that the office required that the President be right in the middle of the fight, that he care about the people's fate, that he be willing to risk momentary displeasure and that he be willing to exercise the full powers of the office. Ibid.
flowing from any small action early in the policy-making process. Still, in Schlesinger's view, Kennedy may have been too sensitive to Congressional limitations on his action and not sensitive enough to the limitations the bureaucracy was able to place on his action. Sorensen reports that Kennedy structured the executive branch to insure that he had advisers with conflicting viewpoints, and that he was determined to make the final decision concerning who to see and what to read.

**CEA Chairman Walter Heller**

President Kennedy selected Walter Heller, Professor and Chairman of the Department of Economics at the University of Minnesota, as the Chairman of the Council of Economic Advisers. Heller was proposed to Kennedy by Paul Samuelson (who had been Kennedy's first choice but

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20 Ibid., pp. 671-686. For Schlesinger's account of similarities and differences between Kennedy and Roosevelt, see ibid., p. 677.

21 Ibid., pp. 680, 686. Sorensen reports that Kennedy talked more and more about the limitations of the office as his tenure increased. Sorensen, op. cit., p. 439.


23 Heller, who had received his B.A. from Oberlin and his M.A. and Ph.D. in economics from the University of Wisconsin, had had previous governmental experience at the national level (as a Treasury economist during World War II and as Chief of Internal Finance in the military government in post-war Germany) and at the state level in Minnesota. Flash, op. cit., p. 176.
declined), the Harvard academic advisers and many others.\textsuperscript{24} Kennedy told Heller he needed him and Douglas Dillon for proper balance in economic matters.\textsuperscript{25} Initially, the President found Heller a bit "too professorial," but as they became accustomed to one another and as Heller learned and met the needs of the President, a close relationship was established.\textsuperscript{26} In Harris' view, Heller, more than anybody, won the President over to a modern view of economics.\textsuperscript{27} Kennedy indicated a conception of an activist CEA in his directions issued to the Council prior to inauguration.\textsuperscript{28}

Heller believed that the government had a responsibility to use the public sector to achieve public welfare and stressed the relative efficacy of fiscal over monetary policy. He was concerned with reducing unemployment and developing "social capital" primarily through greater investment in education and training.\textsuperscript{29} In his \textit{New Dimensions of Political Economy}, he places himself in the

\begin{itemize}
\item \textsuperscript{24}Ibid., p. 175; Schlesinger, \textit{op. cit.}, p. 137.
\item \textsuperscript{25}Schlesinger, \textit{op. cit.}, p. 623.
\item \textsuperscript{26}Rowen, \textit{op. cit.}, pp. 37-38.
\item \textsuperscript{27}Harris, \textit{Economics of the Kennedy Years}, p. 23.
\item \textsuperscript{28}Flash, \textit{op. cit.}, pp. 175-176.
\item \textsuperscript{29}Canterbery, \textit{op. cit.}, p. 139; Flash, \textit{op. cit.}, p. 177.
\end{itemize}
mainstream of Keynesian-influenced modern economics, and gives some indications of how he viewed his role. He believed two factors increase the influence of political economists in government: (1) the increasing base of economic statistics, theory, and research; and (2) the economist's analytical approach, i.e., his concern with choice, with the costs and benefits involved in following various alternatives, that politicians find so useful.

Heller suggests that the economic adviser performs four functions: (1) economic analysis, interpretation, and forecasting; (2) policy advice; (3) education; and (4) adaptation and translation. On the basis of his analysis and within the normative context of the Employment Act mandate and the President's general philosophy, the economist provides advice on the contributions of various alternatives to competing economic policy objectives. The function of education involves educating the President, Congressmen and other public leaders. The adviser also engages in a process of adopting, translating, and innovating in order to make economic concepts guides for policy.

Heller further argues that it is inevitable and desirable that an economic adviser makes value choices. The Employment Act requires such choices and any policy concern

30Heller, op. cit., p. 4. 31Ibid., pp. 4-5. 32Ibid., pp. 15-18.
is based on ethical and political propositions drawn from the non-political world. Such choices are desirable because, in Heller's view, nothing important can be said in the policy process without them. An adviser must also engage in advocacy because of the CEA's responsibility for explaining the President's general economic strategy to Congress and the public and because of the great difficulty, if not the impossibility, of separating explanation from defense. Finally, Heller contends that the economist will maintain his objectivity and perspective because of the need to answer to himself as a professional and to his professional colleagues as well.\textsuperscript{33} Heller also states that part of the economic adviser's job is to help the President expand the boundaries of the possible.\textsuperscript{34}

\textbf{Council members Kermit Gordon and James Tobin}

Heller suggested Kermit Gordon of Williams College and James Tobin of Yale to fill out the Council. Kennedy was at first reluctant to accept Gordon because he had refused to work for him in 1959. But, with Heller persevering, Kennedy agreed and Gordon quickly won the President's esteem and eventually succeeded Bell as Director of the

\textsuperscript{33}\textit{Ibid.}, pp. 18-22.

\textsuperscript{34}\textit{Ibid.}, p. 51.
Budget Bureau. Tobin had a reputation in statistical method, econometrics, and economic theory.

The CEA in operation

Chairman Heller exercised general leadership of the Council. He was also concerned with fiscal and monetary policy, education and welfare matters. Tobin was generally responsible for theory, overall economic analysis, international monetary matters, and balance of payments problems. Gordon was the chief project's operations officer. In addition to the members, the staff also considered policy matters. The Council generally contacted the President through Heller, although the President periodically met with the entire Council membership or any combination thereof, and, on occasion, even with individual

35Schlesinger, op. cit., p. 135. Gordon had received his B.A. (with highest honors in economics) from Swarthmore in 1938, been a Rhodes Scholar and did graduate work in economics at Harvard during 1940-41. His governmental experience consisted of service in the Office of Price Administration during 1941-43 and in the economic affairs office of the State Department from 1943 to 1946, at which time he joined the Williams faculty. Flash, op. cit., p. 177.

36Tobin, who had received his Ph.D. from Harvard in 1947, had previously served in the government from 1941-42, as an associate economist in the OPA and the War Production Board and had served as consultant to the Federal Reserve Board during 1955-56. He had also written several economic memos for Kennedy prior to his nomination. Flash, op. cit., p. 178.

37Ibid., p. 212.
staff members Arthur Okun and Robert Solow. The Council's contacts in the White House included Ted Sorensen, Myer Feldman, and Carl Kaysen. There was no single intermediary comparable to Gabriel Hauge under Eisenhower.\(^38\)

All the Kennedy CEA members accepted Keynesian economics: they sought adequate demand, through increased public spending and/or reduced taxes when appropriate, and regarded a balanced economy (and not a balanced budget) as the objective of economic policy. They also advanced Keynesian economics, particularly through their emphasis on the inhibiting effect of rising revenues on economic growth during recovery and the emphasis on the gulf between actual and potential output.\(^39\)

Secretary of the Treasury
Douglas Dillon

The appointment of Douglas Dillon, a Republican investment banker who had held several positions in the Eisenhower Administration including that of Undersecretary of State for Economic Affairs, was designed to reassure the banking community.\(^40\) During the transition period, several

\(^38\)Ibid., pp. 213-214.

\(^39\)Harris, Economics of the Kennedy Years, p. 22.

\(^40\)Dillon had graduated first in his class, magna cum laude, from Harvard. In the 1930's, he joined his father's investment banking firm of Dillon, Read and Company. His association with the Republican Party included work with John Foster Dulles as foreign policy adviser to Thomas Dewey in 1948 and service as Ambassador to France and as
people, including Paul Nitze, the head of the task force on national security, and Richard Neustadt, suggested appointing as Secretary of Treasury someone who had the confidence of business, especially in light of the balance of payments problems, although Neustadt, for one, warned that the price might be too high. Some who made this argument still wanted a Democrat rather than a Republican. Kennedy appointed Dillon after questioning him and determining that he would have the bankers' trust, support expansionist policies, and would resign quietly if he was in basic disagreement with Administration policy. To balance Dillon, Kennedy gave the Budget Bureau Directorship and CEA Chairmanship to liberal Democrats.

While to the right of Heller, Dillon was no economic conservative. He supported deficits during a recession, the elimination of tax loopholes, and accelerated economic growth. But his commitment was to maintaining the external

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Undersecretary of State for Economic Affairs during the Eisenhower Administration. Canterbery, op. cit., p. 86.

41 Schlesinger, op. cit., pp. 133-134. Kennedy's Cambridge group of advisers (including Schlesinger, John Kenneth Galbraith, Seymour Harris, and Paul Samuelson), apprehensive about appointing a Republican as Secretary of Treasury, considered as possible appointees Averill Harriman, Senator Albert Gore, Representative Henry Reuss and Representative Richard Bolling, but with the possible exception of Harriman, none had the desirable Wall Street connections. Ibid., p. 135.

42 Ibid., pp. 135-136.
value of the dollar over any domestic goals. While preaching modern budgetary policy, he was inclined to keep the federal budget as low as possible and more quickly recognized the danger of inflation than recession. Dillon regarded Kennedy as a fiscal moderate. Dillon also perceived that the CEA and Treasury each perform different but useful roles—the one as the originator of new ideas; the other, an operating department, following a more cautious course.\(^{43}\)

Dillon was regarded as knowledgeable in the ways of the politics of economic policy and of the bureaucracy. He appreciated academic advice and restored economists to the Treasury Department from which they had been banished by George Humphrey. At Kennedy's suggestion, he selected as his economic adviser Seymour Harris who, in turn, established a board of consultants that met regularly with Dillon.\(^{44}\) Kennedy also played a personal role in filling top Treasury positions by appointing Henry H. Fowler, a Washington lawyer with long government experience, as Undersecretary, two campaign advisers on taxation—Stanley Surry of Harvard Law School and Mortimer M. Kaplan of the University of Virginia Law School—as Assistant Secretary for

\(^{43}\)For a discussion of Dillon's economic views, see Schlesinger, op. cit., pp. 135-136, 624; Sorensen, op. cit., p. 305; Canterbery, op. cit., pp. 85, 88; Harris, Economics of the Kennedy Years, pp. 22-23; and Rowen, op. cit., pp. 176-177.

\(^{44}\)Schlesinger, op. cit., p. 624.
Taxation and Commissioner of Internal Revenue, respectively; and Robert V. Roosa, an economist with the New York Federal Reserve Bank as Under Secretary for Monetary Affairs.  

Kennedy's economic advisers

As Budget Director, Kennedy appointed David Bell of the Littauer School at Harvard. Bell, a veteran of the Stevenson campaign, had been recommended by Clark Clifford, who had served with him on Harry Truman's White House Staff.

Sorensen suggests that Kennedy's economic advisers agreed that unemployment was too high, that budget deficits under such circumstances were unavoidable and useful, and that consumer purchasing power should be more strongly supported than it had been under the Eisenhower Administration. However, each of his major advisers emphasized certain points. Heller and the CEA stressed the "gap" between actual and potential production. Budget Directors Bell and Gordon usually sided with Heller. Secretary Dillon stressed the international dangers of an excessive

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45Ibid., p. 154. Roosa, who apparently also had been chosen by Dillon, had written widely on the need to keep the Treasury and Federal Reserve independent and his selection was, at least, in part related to a desire to quash rumors that Kennedy and Dillon planned to usurp the independence of the Federal Reserve System. Canterbery, op.cit., p. 88.

46Schlesinger, op. cit., pp. 136-137.
budget deficit. As a part-time economic adviser, Galbraith emphasized the benefits of public spending. Labor Secretary Arthur Goldberg emphasized massive public works along with other pinpointed solutions. And Paul Samuelson stressed the value of a temporary tax cut. Sorensen writes that his role was to synthesize and refine issues and relate them to the larger legislative and political outlook.\(^\text{47}\) In Harris' view, Dillon gradually accepted Keynesian economics, but was less enthusiastic than were CEA members. Harris also suggests that Labor Secretaries tend to stress structural factors and to de-emphasize any deficiency of demand as a cause of unemployment.\(^\text{48}\)

**Economic conditions at the time Kennedy took office**

President Kennedy assumed office during the nation's fourth post-war recession. In January, 1961, the unemployment rate stood at 7.7 per cent.\(^\text{49}\) While the shallowest of the post-war recessions, "it began before recovery from the previous recession was really completed."\(^\text{50}\) GNP had peaked

\(^{47}\)Sorensen, *op. cit.*, p. 443.

\(^{48}\)Harris, *Economics of the Kennedy Years*, p. 5.


during the second quarter of 1960. The National Bureau of Economic Research placed the peak in May, 1960, and the trough in the first quarter of 1961. From peak to trough, "GNP declined by 2.2 percent in constant (1961) prices, the smallest decline in any recession since World War II." 51

Initiation

While the function of initiation, i.e., raising the issue of economic growth as a subject for political concern, was performed primarily by John Kennedy in his campaign for the Presidency in 1960, the parties and other groups had raised the issue prior to 1960. For example, the Committee on Economic Development had financed a number of important educational studies on growth and fiscal policy. 52

During 1959 and 1960, the Democrats had stressed the growth issue, while Republicans, with the exception of Nelson Rockefeller, tended to be silent or highly critical of the growth issue. However, by mid-1959, the Republicans began to take note of the issue; the Task Force on Economic Opportunity and Progress and the Nixon Report on Price Stability and Economic Growth both acknowledged the need for growth, but emphasized achieving increased growth through private incentive, such as tax reduction in the

51 Ibid., p. 242.
52 Canterbury, op. cit., p. 66.
higher income brackets.\textsuperscript{53} Prior to this, the Republicans seemed to fear higher rates of growth because of their belief that halting inflation was more important than stimulating economic growth.\textsuperscript{54}

Kennedy made economic growth a central issue in his 1960 campaign.\textsuperscript{55} He argued for increasing the growth rate to five per cent per year, through such methods as the use of the budget for economic stabilization, reversing the tight money policy, special assistance for areas hit by economic decline and technological change, making the public investments that provide the foundation for private investment, training manpower for an increasingly automated economy, improving the educational system, and assuming equal opportunity for employment.\textsuperscript{56} Harris cites at least twenty occasions during the campaign in which he discussed the issue of economic growth. He often made the points

\begin{itemize}
  \item \textsuperscript{53}Harris, \textit{The Economics of the Political Parties}, p. 222.
  \item \textsuperscript{54}Ibid., pp. 341-343; Harris, \textit{Economics of the Kennedy Years}, p. 177.
  \item \textsuperscript{55}See Schlesinger, \textit{op. cit.}, p. 625; Harris, \textit{Economics of the Political Parties}, p. 223; and Canterbery, \textit{op. cit.}, chapter 5, pp. 48-57. While Rowen admits that Kennedy was emotionally committed to a high growth rate, he writes that Kennedy was unable to stick with it, for "a consistently high growth rate trend implies a commitment to larger Federal spending, and faced with this as a reality, President Kennedy relinquished his eagerness to grapple with the problem." Rowen, \textit{op. cit.}, p. 282.
  \item \textsuperscript{56}Schlesinger, \textit{op. cit.}, p. 625.
\end{itemize}
that the Soviet Union's growth rate, in recent years, had been three times that of the United States and that the United States growth rate was the slowest of any industrialized nation. 

Definition of the Issue

This section will trace the development of the Administration's definition of the issue from a more or less traditional recession to the problem of inadequate economic growth that required a major tax cut. Several participants in the Administration—including the President, Heller, and Dillon—performed this function. They defined the issue initially as a traditional recession, but with serious balance of payments complications. Kennedy's call for sacrifice and national security considerations also influenced the definition of the issue. The major Administration participants' final definition of the issue as involving an insufficient rate of economic growth for which a general tax cut was an appropriate response represents an innovative break with traditional economic thinking.

The problem first defined as a recession

Kennedy's economic advisers apparently were aware of chronic economic stagnation during the first year of the

57 Harris, Economics of the Political Parties, p. 223.
Administration, but perceived political obstacles to any major attempts to deal with this long-range problem. Expansionists within the Kennedy Administration encountered three obstacles: the President's political advisers; the conservative economic thinking in the Treasury Department; and the President's incomplete understanding and acceptance of the new economics.58

"Prospects and Policies for the 1961 American Economy," the report of the Paul Samuelson Task Force on the economy, released on January 5, 1961, provides an indication of the way some advisers perceived the economic situation immediately prior to Kennedy's inauguration. The Report stated that the 1961 goal should be to end the recession and to promote a recovery that would not end after one year at a point below potential.59 Since the balance of payments problem precluded a cheap money policy, fiscal policy had to carry a larger burden.60 The Report proposed two groups of recommendations. As "First Line of Defense Policies," it suggested: increased governmental spending for meritorious programs; improved unemployment compensation; the stimulation of residential housing construction;


59Flash, op. cit., p. 182.

60Harris, Economics of the Kennedy Years, p. 59.
and an innovative monetary policy that would provide low interest rates on long-term bonds and high interest short-term maturities. The major element of the "Second Line of Defense Policies" was a temporary 3-4 per cent tax cut, to begin in March, if necessary, by the reduction in withholding rates, and extendable by the President for additional periods of time, but not beyond the end of 1962. Samuelson has stated that while a sizeable deficit was objectively warranted in 1961, such a deficit as well as a tax cut were ruled out on political grounds in 1961.

About a week before taking office, Douglas Dillon announced he had no intention of recommending a tax cut that would jeopardize a balanced budget and the serious balance of payments problems. He also did not endorse the idea of giving the President temporary authority to reduce taxes. However, he supported tax reform and supported repeal of deduction-and-credit feature on dividends, withholding taxes on dividends and interest, and tightening up on overseas investments.

Administration participants often discussed the recession and balance of payments problems in terms of the

61Flash, op. cit., pp. 182-183.


traditional balanced budget ideology. For example, in his 1961 State of the Union Message, Kennedy defined the economic issue as a recession calling for governmental action, but also called for proceeding within the context of a balanced budget. Heller reports the shock of economists when told they would have to fight the recession within a balanced budget. However, he reported that the actual commitment to a balanced budget made by Kennedy in his State of the Union Message contained seven "escape hatches." In the State of the Union Message, Kennedy also stressed the priority he gave to the balance of payments problem and his determination not to devalue but to keep the dollar sound.

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64 He referred to seven years of recession, three and one-half years of slack, seven years of diminished economic growth, and nine years of falling farm income. Sorensen, op. cit., p. 444. The President's proposals were based on the Samuelson "First Line of Defense"; he made no reference in his Message to a tax cut or to Presidential discretionary authority to reduce taxes, as contained in Samuelson's "Second Line." Flash, op. cit., p. 184.

65 Kennedy said: "Within that framework [that is, of the Eisenhower spending and revenue estimates], barring the development of urgent national defense needs or a worsening of the economy, it is my current intention to advocate a program of expenditures which, including revenues from a stimulation of the economy, will not of and by themselves unbalance the earlier budget." Cited in Heller, op. cit., pp. 30-31.

66 The President stated that all of the United States gold reserves plus International Monetary Fund drawing rights were available if required for this effort. Sorensen, op. cit., p. 456.
Kennedy's concern about the balance of payments

Kennedy recognized that the balance of payments problem would limit his anti-recessionary fight, particularly with respect to lower interest rates and general budgetary freedom and was worried that the Federal Reserve Board Chairman William McChesney Martin might hamper recovery through higher interest rates. Most of Kennedy's advisers thought him overly concerned with the balance of payments problem. Some even suggested privately that devaluation was not totally out of the question. But Kennedy's reaction was that he did not want this alternative even mentioned outside his office.67 In Schlesinger's view, the balance of payments problem provided the Treasury with "its most potent leverage over general economic policy."68 To the President, Dillon's continuation in office was insurance against a gold panic.69

67Ibid., pp. 457-458. Quoting Kennedy, Sorensen suggests three reasons for the President's great concern for the balance of payments problem: (1) his desire to avoid responsibility for any new run on the dollar or for bringing the troops home from Europe; (2) his belief that this constituted a club DeGaulle and others could use against him; and (3) a desire to avoid any basis for rumors to stimulate a gold outflow in 1964. The President evidently believed such rumors had been started in 1960 in an effort to embarrass him. Ibid., p. 458.

68Schlesinger, op. cit., p. 652.

69Ibid., p. 655.
February 2, 1961, Special
Presidential Message on
the Economy

The proposals contained in the President's February 2 Message on the Economy are another indication that the Administration was willing to propose recommendations contained in the Samuelson Task Force's "First Line of Defense," but not those contained in the "Second Line." In his message, he stated that the budget should be used to foster prosperity and stability, not to impede recovery, but also pledged to balance the budget over the economic cycle. He did introduce the concept of production gap and noted the problem of unused potential as the economy starts to expand, but he proposed no bold recovery program. At this time only the CEA was advocating a temporary tax cut. Yet, it seemed to understand the opposition and, here, viewed an increase in spending as an alternative.

The Kennedy Administration's 1961 tax reform proposals

On April 20, 1961, President Kennedy proposed tax reforms designed to stimulate investment and to close loopholes. It was believed that the $1.7 billion annual loss in revenue due to the investment incentive proposal would

70 Heller, op. cit., p. 31.
71 Flash, op. cit., p. 185.
be offset by a gain in revenue from the closing of tax loopholes.\textsuperscript{72} But business opposed these proposals.\textsuperscript{73} Congress was also less than enthusiastic, and Chairman Wilbur Mills was reluctant to provide additional preference for business. Many groups and congressmen opposed particular provisions. So Congress postponed consideration until 1962.\textsuperscript{74}

Pressure for a public works program

During the spring of 1961, the President resisted pressures from within the Administration, liberal members of Congress, and organized labor for a massive public works program and a temporary tax cut.\textsuperscript{75} Chairman Heller argued in favor of the stand-by public works program proposed by Senator Joseph Clark, Democrat of Pennsylvania. However, this was opposed by the President and Sorensen, who believed that additional space and defense spending made further domestic spending impossible,\textsuperscript{76} and by Dillon who

\textsuperscript{72}Ibid., pp. 191-192. These proposals apparently grew out of the 1959 hearings on tax revision held by Wilbur Mills and the report of Stanley Surrey's task force on taxation to the President-elect. Tax reform was motivated by other than countercyclical considerations. Ibid., pp. 192-195.

\textsuperscript{73}Schlesinger, op. cit., p. 631.

\textsuperscript{74}Flash, op. cit., p. 197.

\textsuperscript{75}Sorensen, op. cit., p. 447.

\textsuperscript{76}Schlesinger, op. cit., p. 629.
believed that the deficit would be already large enough. Dillon wanted to hold out the hope of a balanced budget to business and wanted to use a limited tax reduction later as a "sweetener" for tax reform.  

The Berlin build-up, a possible tax increase, and the pledge of a balanced budget

Kennedy's tentative decision to request a tax increase to finance the Berlin build-up in the summer of 1961 indicates how far he was from accepting the new economics and from defining the major economic issue as chronic economic stagnation calling for a major fiscal stimulus. Pressure for such a tax increase originally came from the President's foreign policy advisers. The President saw this as a sharing of the burden; the Attorney-General thought it in accord with the theme of sacrifice. Foreign policy advisers supported it as a demonstration of the nation's determination. With some reluctance, Dillon supported it as a step toward a balanced budget.

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77 Ibid., pp. 629-630.

78 Heller writes that Kennedy "flying in the face of modern economics, tentatively decided on a tax increase of $3 billion to finance the Berlin defense build-up in spite of the still-yawning gap between the economy's actual and potential performance." Heller, op. cit., p. 32.

79 Sorensen, op. cit., p. 448. Senate Majority Leader Mike Mansfield supported it as "sound policy and sound politics," and found no reason for limiting it to only one year. Ibid., Health, Education and Welfare Secretary
However, such a move was opposed by the Council of Economic Advisers, who believed that a tax increase on top of an already restrictive tax structure would surely stifle economic recovery. Opponents of the Berlin tax increase argued that Kennedy should promise a tax increase for January, 1962, only if he could not submit a balanced budget for fiscal 1963. Sorensen wrote that he and other opponents of a tax increase "were determined to find fair means or foul of making that Budget look balanced and dropping all thought of new taxes." In addition, they contended that the President could point to an abundance of unenacted sacrifice and, in this, Secretary Dillon concurred. The President, still sensitive to the charge of no concrete call for sacrifice, reluctantly agreed.

Proponents of a Berlin tax increase suggested the alternative of a reduction in domestic spending equal to the increase in defense spending. The President was at first attracted to this proposal, but Sorensen and the CEA, Ribicoff and Labor Secretary Goldberg also supported the idea of a tax increase. Flash, op. cit., p. 203.

80 Flash, op. cit., p. 203. The Council of Economic Advisers, which is not represented on the National Security Council, had Sorensen represent them on this issue. Heller writes that when the decision went against them in the National Security Council, they got access to the President through Kenneth O'Donnell. Heller, op. cit., p. 32.

81 Sorensen, op. cit., p. 448.

82 Ibid., pp. 448-449.
supported by some domestic cabinet officials, successfully argued against this. 83

The President was thus apparently influenced to reverse his tentative decision by the arguments of Heller and the CEA. In addition, once Heller was able directly to argue against the proposal, Dillon seemed to change his mind and, along with Budget Director Bell, supported Heller's position. Moreover, Chairman Mills warned the President of the impact of such a recommendation on his foreign aid and welfare programs. 84 Finally, Paul Samuelson visited Kennedy in Massachusetts the weekend before the final decision was made. 85

Kennedy's July 25, 1961, national address on the Berlin situation stressed political and military considerations over the economic issue. He did not request new taxes, but committed the Administration to a balanced budget for fiscal 1963. 86 The promise reassured Dillon, Martin, and the business community, but shocked many economists. 87

83 Ibid., p. 449.
84 Flash, op. cit., pp. 203-204.
85 Heller, op. cit., p. 32.
86 Flash, op. cit., p. 204.
87 Rowen, op. cit., p. 172.
The President's fiscal 1963 budget

Heller states that it was reasonable in mid-1961 to promise a balanced budget for fiscal 1963 because recovery was brisk in mid-1961. Although apparently believing that the revenue estimates were inflated, Stein also cites economic developments in the second half of 1961 that would have provided some support for the view that a balanced budget was possible. Yet, Heller does admit that Kennedy had to "paper over" a deficit in order to proceed with his spending programs and to obtain a stimulative budget. This budget assumed a nine per cent increase in GNP in 1962 and a resulting thirteen per cent increase in tax receipts. Moreover, the budget assumed that unemployment

88Heller, op. cit., p. 32.

89Stein writes that recovery during the second half of 1961 took place more rapidly than the CEA expected. From February to October, 1961, unemployment varied between 6.8 per cent and 6.9 per cent, but fell to 6.1 per cent in November and December. After Labor Day, the stock market showed signs of anticipating a boom and worries about inflation reappeared. And in the last part of 1961, some members of the Administration thought budgetary restraint appropriate. For example, on October 26, 1961, the President issued a statement to cabinet and agency heads asking frugality in 1962 and 1963, mainly because of a concern for the economic situation. Stein, op. cit., pp. 403-404.

90Heller, op. cit., p. 57. Harris states that the President wanted a balanced budget for fiscal 1963 and that, "It was generally known that the forecast was optimistic." Harris, Economics of the Kennedy Years, p. 57.

91Sundquist, op. cit., p. 39.
would drop to four per cent by mid-1961, despite the notion that fiscal drag was preventing full employment.  

President Kennedy's fiscal 1963 administrative budget, as contained in his January 18, 1962, Budget Message, predicted $92.5 billion in expenditures, $93 billion in revenue, and a resulting $.5 billion surplus. He stated that spending for national defense, international and space programs accounted for three-fifths of the 1963 budget outlay and three-fourths of the estimated increase in spending in 1963, and that apart from an increase in interest payments, expenditures for "domestic civil" programs had been held virtually stable between 1962 and 1963. While not expecting another recession during fiscal 1963, the President warned that past experience indicated periodic fluctuations were unavoidable and that fiscal policy should work flexibly and promptly under those conditions. To secure this flexibility, Kennedy recommended stand-by plans, including: (a) Presidential stand-by authority, subject to Congressional veto, to reduce personal income taxes; and (b) Presidential stand-by authority to begin a

92Stein, op. cit., p. 402.


94Ibid., p. 27.
temporary public works program when unemployment rises sharply. 95

The 1962 Economic Report

The President's Report

President Kennedy's interpretation of the 1946 Employment Act, as contained in his 1962 Economic Report, stressed full employment. He contended that the authors of the Employment Act knew it was easier to meet the Act's other standards when the economy operated at full capacity. The President emphasized the benefits of a full employment economy to businessmen, workers, and the disadvantaged. 96

He also reviewed economic progress in 1961 and declared that his goals for the year had been met. 97 He put forth four goals as the unfinished business of economic policy: full employment and sustained prosperity without inflation; the acceleration of economic growth; the extension of equality of opportunity; and a restoration of the

95 Ibid., pp. 35-36. He also recommended a strengthening of the unemployment system. Ibid., p. 36.


97 His five goals for 1961 were: a reversal of the downturn; a narrowing in the gap of unused potential; an abatement in unemployment; reasonable price stability; restoration of confidence in the dollar; and the reduction of the international payments deficit. Ibid., p. 5.
balance of payments equilibrium. Kennedy stated that with the appropriate fiscal, monetary, and other policies, his temporary target of four per cent unemployment could be reached in 1963. He also suggested that the economy could achieve a growth rate of 4.5 per cent, our early postwar record, during the 1960's.98

The President expected continued recovery in 1962.99 He recommended strengthening the defense against recession, the financial system, the manpower base, and the tax system.100 With regard to taxes, the President recommended passage of the eight per cent tax credit for investment in depreciable machinery and equipment (a proposal then pending before the Ways and Means Committee), other tax reforms to improve equity and offset revenue loss, and an extension of corporate income taxes and certain excise taxes. He also stated his intention of presenting a major tax reform program later in the year.101

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98 Ibid., pp. 7-9.
99 Ibid., p. 11.
100 For an explanation of the recommendations to strengthen the defense against recession which included the proposals for stand-by Presidential authority to reduce taxes, stand-by Presidential authority to begin public works and an improvement in unemployment compensation system, see ibid., pp. 17-20, the recommendations about the financial system, see pp. 21-22, and those recommendations on the strengthening of the manpower base, see pp. 24-25.
The Council's Report to the President

The 1962 Report of the Council of Economic Advisers to the President suggested the Heller Council's interpretation of the economic situation prior to the formulation of the tax cut as well as the concepts the Council used to interpret economic phenomena. The Council viewed "maximum employment" or "minimum unemployment" as the goal of the Employment Act. However, the CEA suggested a temporary interim unemployment goal that reflected "a balancing of employment and production objectives with other considerations of national policy, within the limits set by the existing characteristics of the economy."102 The Council discussed two groups of causes of unemployment and inflationary pressure—those relating to aggregate demand and those relating to the structure and functioning of markets.103 "Full employment" would occur when stabilization policies eliminated the unemployment that was due to inadequate aggregate demand without creating a demand-induced inflation. In their view, a move below four per cent unemployment required an attack on structural causes.104

102 Ibid., p. 44.
103 Ibid., pp. 44-48.
104 Ibid., p. 46. The Council contended that both its analyses and those of the Joint Economic Committee staff did not support the view that frictional and structural unemployment is a rising proportion of the labor force. Ibid., p. 48.
The Council reviewed economic developments in the previous year, and although they believed the downswing would have ended, anyhow, in 1961, they cited increased governmental spending as the key element in the increase in demand in 1961. State and local government purchases continued their upward trend. The Council argued that, considering direct and indirect effects, increased federal activity was "probably the principal driving force" of the recovery.105

The Council also explained the concept of "full employment surplus," which, with the national income accounts budget, provided a basis for determining the expansionary or restrictive impact of a budget on the economy.106 The "full employment surplus" refers to "the excess of revenues over expenses which would prevail at 4 per cent unemployment."107 Generally, the smaller the full employment surplus of a budget program, the more expansionary the impact.108 But the question of whether a given full employment surplus is too large or too small depends on other

105 Ibid., p. 50.
106 For a discussion of the concept of "full employment surplus," see ibid., pp. 77-81; Heller, op. cit., pp. 66-70; and Flash, op. cit., pp. 223-226.
107 Heller, op. cit., p. 67.
governmental policies and economic factors influencing the strength of private demand. The "full employment surplus" concept focuses attention away from the traditional concern with balancing the administrative budget to balancing the national income accounts budget at full employment.

Heller Council's outlook for 1962

The Heller Council expected GNP to grow at a somewhat more moderate rate than the annual rate of 11 per cent (current prices) attained over the past three quarters and output to continue to catch up with potential, reducing slack and unemployment. They predicted increases in expenditures to be divided roughly as follows: consumer spending, 50 per cent; government purchases, 20 per cent; private fixed investment, 20 per cent; and additions to inventories, 10 per cent. Significantly, they expected unemployment to drop to 5 per cent or somewhat lower by the end of 1962, but not to reach 4 per cent.

109 Ibid., p. 81. "If the full employment surplus is too large, more expansionary monetary and credit policies may strengthen private demand sufficiently to permit full employment to be realized. Changes in the tax structure, stimulating demand while leaving the yield of the tax system unchanged, might have the same effect. Similarly, restrictive changes in other government policies can offset the expansionary influence of a low full employment surplus." Ibid.

110 Ibid., p. 63.

111 Ibid., p. 66.
The President's definition of the issue during the first quarter of 1962

Throughout the first quarter of 1962, the President had not yet defined the issue as chronic economic stagnation requiring a tax cut. His news conference comments indicate that he thought a tax cut might be possible after a few years of prosperity, but that he did not envision a tax cut for purposes of stimulating the economy.112 He did state he wanted to wait until after March before making a judgment on whether governmental action was necessary to counter an economic slowdown.113 Harris notes that serious talk of a large tax cut to stimulate the economy had begun at a May, 1962, meeting of Treasury consultants.114

Heller's and Dillon's definition of the issue during the spring, 1962

During the spring of 1962, Heller, more convinced than ever of the need for a tax cut, continued his justification for a tax cut.115 The President had been hearing Heller's arguments about the burdensome tax structure since

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113See his comments at his March 7, 1962, news conference. Ibid., p. 197.
114Harris, Economics of the Kennedy Years, p. 61.
115Flash, op. cit., p. 232.
1961, when he argued for a tax cut and against any Berlin

crisis tax increase. But Dillon de-emphasized the pros-

cpects for tax reduction, for fear of jeopardizing the chances

for the tax reform then being considered by the Senate.

Impact of the May 28, 1962,
stock market drop on the

definition of the issue

The Dow-Jones index dropped 34.95 points, or 5.7 per

cent, on Monday, May 28, 1962. While this was the second

largest decline in the number of points (surpassed only by

the 38 point drop in the index on October 28, 1929), the

index had suffered a larger percentage decline on twenty-

three other occasions. The market quickly recovered;

the index which closed the previous Friday at 611.78,

reached its low on Tuesday, May 29, of 563.24 and attained

the 613.36 level by Thursday's close.

Despite stories that the drop was due to an anti-
Kennedy plot by business, large European withdrawals of
funds, or the alleged "anti-business" position of the Ken-

nedy Administration (most dramatically illustrated by the

recent steel price controversy), the basic reason for the

116 Sorensen, op. cit., p. 481.

117 Flash, op. cit., p. 232.

118 Rowen, op. cit., p. 131.

119 Ibid.
drop appears to have been simply that stocks were overpriced. Yet, calls were heard in Congress for strong fiscal action, as, for example, on May 29, when Senators Jacob Javits, Hubert Humphrey, and Eugene McCarthy called for tax reduction.

Somewhat to his surprise, the President found that Dillon, Heller, Martin, and other economists at the May 29 emergency meeting that he had called to discuss the market drop were generally unperturbed. They argued that it represented a loss of confidence in the market, but not in the economy or the administration. But the President still expressed concern over the market's continued decline and the possibility of it bringing the entire economy down with it.

120 See ibid., pp. 132-134; and Sorensen, op. cit., p. 473.

121 Sundquist, op. cit., pp. 42-43.

122 Sorensen, op. cit., pp. 474-475. In light of his alarm over the stock market drop, it is interesting to note his public statements on the market prior to May 28. At his May 17, 1962, news conference, he stated that he did not attempt to explain the rises and declines in the market and pointed out that there had been a very sharp market slump in 1956, prior to a very good year. Public Papers of the Presidents of the United States, John F. Kennedy, 1962, p. 405. At his May 23 news conference, he cited encouraging April statistics, such as car sales and increased retail sales, and expected the market to move with the economy. He also noted that the market had dropped while the economy rose at least four times since World War II. Ibid., p. 433. But, responding to a question concerning the relationship between Western Europe's higher growth rate and deficit financing, he suggested the possibility that the tax structure might be a drag on the economy. Ibid., p. 435.
In addition to pressing for pending economic legislation, three new courses of action were considered: (1) a reassuring Presidential "fire-side chat"; (2) a lowering of the margin requirement; and (3) a so-called "quickie" income tax cut of $5-10 billion. The first alternative was shelved (unless the stock market were to get completely out of control), for fear that the speech itself would spread panic. Instead, it was decided that the President should use the market as the basis for a review of the economy at the opening of his June 7, 1962, news conference. The second alternative was also rejected, for while the CEA favored immediate reduction in the margin requirement, no evidence existed that the market's immediate problem was a lack of credit. Again, there was agreement that an immediate reduction would be interpreted as a sign of serious trouble. However, the margin requirement was quietly lowered to fifty per cent six weeks later. The third alternative, a "quickie" income tax cut of $5-10 billion, applicable both to individuals and corporations and to remain in effect for one year, was considered at the meeting and throughout the summer. At the meeting, the CEA favored such a cut, unless the economy improved, while Dillon opposed it, unless the economy worsened. The President reserved judgement until he saw which way the economy was
moving. 123

In the week following the stock market drop, support for a tax cut was tested outside the Administration. There was no great demand for budget balancing, but instead signs of support, or at least acquiescence, from those usually thought to be a stronghold of budget balancing. 124 Between May 29 and June 6, pressure developed for a "quickie" tax cut. Senate Democratic Whip Humphrey and Commerce Secretary Hodges called for a temporary tax cut, but Treasury Secretary Dillon assured the Senate Finance Committee that none was planned. 125 At a June 6 meeting of Kennedy's advisers, Heller's pessimism about economic developments was supported by outside advisers Paul Samuelson and Robert Solow, who believed that for the first time the odds for a "Kennedy recession" . . . had ceased to be negligible." 126 Before June ended, Samuelson would raise the odds on a 1962 recession from 20 per cent to 50/50. 127


124 Stein, op. cit., p. 408. For example, on June 5, 1962, Henry Ford II indicated he did not object to another deficit. Ibid., p. 409.

125 Sorensen reports the President's unhappiness with Cabinet officers committing him one way or another and with press speculation that he had secretly decided for a "quickie" cut. Sorensen, op. cit., p. 476.

126 Ibid.

127 Ibid.
Kennedy announces commitment to 1963 tax reduction

At his June 7, 1962, news conference, the President defined the issue as including a burdensome tax structure and proposed a net tax reduction for 1963. While he emphasized reform, he made a commitment to propose tax reduction in 1963. To cope with the heavy burden the tax structure placed on a prospering economy, he recommended his proposals for an investment tax credit; revision of depreciation guidelines; January, 1963, tax cuts; standby Presidential tax reduction authority; and a repeal of the ten percent transportation tax on train and bus travel. He also expressed his belief that there would be no need for a tax cut before next year, unless circumstances changed.

Modern economics and Kennedy's Yale Commencement Address

President Kennedy's celebrated June 11, 1962, Yale Commencement Address constitutes an important public revelation of the President's acceptance of modern economics.

\[128\] Ibid., p. 481.
\[129\] Public Papers of the Presidents of the United States, John F. Kennedy, 1962, p. 457.
\[130\] Ibid., p. 458.
\[131\] The President presented some of the ideas he developed in his Yale speech in his remarks to members of the White House Conference on National Economic Issues on May 21, 1962. Ibid., pp. 420-423. Heller describes the speech "as the most literate and sophisticated dissertation on
He argued for the rejection of the stale phrases of economic mythology and for confronting reality. Moreover, he contended that the basic contemporary domestic problems involved disputes over methods of reaching common goals and not ideologies. Among the specific myths that he considered and rejected were the following: (1) the federal government is constantly growing bigger; (2) fiscal integrity can be measured by the administrative budget; (3) myths about public spending; and (4) myths about business confidence in the government.

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132 Public Papers of the Presidents of the United States, John F. Kennedy, 1962, p. 471. Kennedy said: "For the great enemy of the truth is very often not the lie--deliberate, contrived, and dishonest--but the myth--persistent, persuasive, and unrealistic." Ibid.

133 Ibid.

134 He argued with regard to the myth on government growth that the federal government, debt and bureaucracy had grown during the previous fifteen years less rapidly than the economy and that excluding defense and space spending that the federal government had expanded less than any other major sector of national life since World War II. Ibid., p. 471. He argued that the administrative budget in relation to pressing fiscal problems "is not simply irrelevant; it can be actively misleading." Ibid., p. 472. With regard to public spending, he noted that the debt per person and debt as a proportion of GNP have sharply declined since World War II. Ibid., p. 472. On the question of confidence, he contended that what matters is businessmen's confidence in the economy and not their political
Treasury and tax reduction,
June 1962

In early June, Secretary Dillon, on the strength of Heller's arguments and desirous of preventing a temporary tax cut that might block his tax reform plan for 1963, had agreed to a net tax reduction plan in the 1963 proposals. In a June 4 speech he spoke of tax reforms offsetting tax reductions "in whole or in part." While not yet accepting the notion of a massive tax reduction, Dillon believed that a small net reduction would serve as a "sweetener" to help pass the anticipated 1963 tax reform bill.135

Still, the Treasury Department was generally unenthusiastic about tax reduction. The department focused more on reform; interest in reduction was mainly as a support for reform. Treasury officials were concerned with Congressional reaction and with the impact of tax reduction on the debt ceiling and balance of payments. Treasury and Federal Reserve officials concerned with economic stability regarded tax reduction without expenditure reduction as an invitation to inflation.136

135Sorensen, op. cit., p. 481.
Secretary of Labor Arthur Goldberg and Secretary of Commerce Luther Hodges supported Heller on tax reduction.\textsuperscript{137} Labor Secretary Goldberg apparently supported the tax cut because of personal conviction and the political pressure that high unemployment brought upon him. As Governor of North Carolina, Luther Hodges had encouraged economic development. He was more concerned with avoiding recession than with deficits. When the stock market dropped, he was the only cabinet member to advocate an immediate reduction in personal and corporate income taxes, along with the announcement of new depreciation allowances. Heller did not find much active support in the Budget Bureau, for, although not necessarily opposed to reduction, the Budget Bureau's concern was with spending money for authorized purposes and so shared the Treasury's sensitivity to deficits.\textsuperscript{138}

The CEA was primarily responsible for pushing the tax cut idea and the June economic pause supported Heller's position. But concentration on the immediate situation could lead to the correct policy--a tax cut--but for the wrong reasons, i.e., countercyclical reasons and not for the long-run purpose of fostering economic growth by

\textsuperscript{137}Their support took the form of talking to the President and making speeches on the subject. \textit{Ibid.}, p. 239.

\textsuperscript{138}\textit{Ibid.}
removing a repressive tax structure. Heller did not want a so-called "quickie" cut unless the President also got standby authority to reduce taxes. He did want an immediate tax cut but would take one later rather than none at all. In seeking tax reduction, Heller had the support of other CEA members and the CEA staff.

Economic assessments made at the end of June and during July reinforced the view that tax reduction was required to avoid a recession. For example, Paul Samuelson said at the end of June that the odds on a recession in 1962 were 50/50. In mid-July, Samuelson and Solow stated that a majority of economists believed a recession would develop. Harris' group of Treasury consultants unanimously concluded that a tax cut was the only practical way of providing the immediate lift the economy required.

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139 Ibid., p. 240.
140 Ibid., p. 241. Flash suggests that the Council's staff resources influenced its perspective on tax reduction. With no one staff expert on the tax structure, it could focus on the impact of tax changes on the economy and on broad tax matters. Moreover, it was not linked to any particular tax reform proposals that it had spent a long time preparing. One reason for the President's receptivity to their advice was the Council's breadth of involvement in economic policy matched the pressures and opportunities he faced. Ibid.
141 Sorensen, op. cit., p. 476.
142 Harris, Economics of the Kennedy Years, p. 34.
A widespread consensus in summer, 1962, for a tax cut

While disagreeing over whose taxes should be cut, there was agreement in the summer of 1962 among the major interest groups, e.g., the United States Chamber of Commerce and the AFL-CIO, that taxes should be cut promptly to stimulate demand. This view was based on an assessment that the economy had been stagnant over the past several years and that the fifth post-war recession could be approaching. But there was no tax cut in the summer of 1962, because the Administration deferred to political considerations over economic factors.

No immediate tax cut but the January commitment reinforced

The President and major officials of the Treasury, the Budget Bureau, and the Council of Economic Advisers held a series of meetings in July and early August to discuss the possibility of an immediate tax cut. A series of meetings on July 13 appears to be particularly important. On that date, the President conferred in the morning with the advocates of a tax cut: Secretary Hodges and Under Secretary Gudeman of Commerce; Secretary of Labor Goldberg;

Budget Director Bell; the three CEA members; and Paul Samuelson and Robert Solow of M.I.T. During lunch, the President met with business leaders, who reportedly differed on the question of a tax cut. In the afternoon, the President met with opponents, including Dillon and Wilbur Mills. Dillon pointed out the tax cut's potentially adverse effects on the balance of payments. Both Dillon and Mills emphasized the impact of reduction on reform plans and other legislation and were pessimistic about Congress' acceptance of the plan. The upshot of these meetings was a decision to postpone a decision on a tax cut until August when the July economic data were in.144

**Kennedy's August 13, 1962, address on the state of the economy**

In his August 13 Radio-TV speech on the economy, the President explained his guardedly optimistic assessment of the economy, his relevant economic legislation, the tax cut that he intended to pursue in 1963, and the problems the tax cut was designed to cope with. He explained the economic progress that had occurred over the past one and one-half years.145 While the economy had not progressed as

144Flash, *op. cit.*, p. 245.

145*Public Papers of the Presidents of the United States, John F. Kennedy, 1962*, p. 611. Writing at about this time, Nossiter writes that the recovery was "abnormally weak" and that some of his comments were misleading.
desired during the summer, the July economic indicators did not suggest that the economy was entering a new recession. The President stressed the need to recover from both the recessions of 1960-61 and 1958, noting the slowdown in growth since the beginning of 1957.\textsuperscript{146} In order to promote more jobs and to encourage growth, the President asked for Congressional and public support for enacting certain of his legislative proposals.\textsuperscript{147} The President also proudly noted that the previous year's deficit had been smaller than that incurred during the 1958 recession and that the actual burden of the debt in relation to the nation's output had been reduced.\textsuperscript{148}

In this speech, Kennedy defined the issue to include the burden the existing tax structure placed on economic

The gains in output, jobs and income that Kennedy cited were measured from the bottom of a slump to what might be the peak of recovery. Nossiter contends that the relevant comparison is between this recovery and gains in similar periods of other recoveries. Moreover, the 10 per cent rise in GNP since Kennedy assumed office is calculated by treating 1961 dollars and 1962 dollars the same. In terms of constant dollars, the GNP rise is 8.5 per cent, as Heller had said just five days earlier. Nossiter, \textit{op. cit.}, p. 27.

\textsuperscript{146}Public Papers of the Presidents of the United States, John F. Kennedy, 1962, pp. 611-613.

\textsuperscript{147}These included the following: federal aid for state and local public works; the youth opportunities bill; a renewal of the temporary federal backstop to unemployment compensation; the trade expansion bill; and an aid to education (particularly higher education) bill. \textit{Ibid.}, pp. 613-614.

\textsuperscript{148}\textit{Ibid.}, p. 615.
recovery and growth. He called federal tax policy "the single most important fiscal weapon available to strengthen the national economy."\textsuperscript{149} He intended to cut taxes:

\ldots in order to build the fundamental strength of our economy, to remove a serious barrier to long-term growth, to increase incentives by routing out inequities and complexities and to prevent the even greater budget deficit that a lagging economy would otherwise surely produce.\textsuperscript{150}

The January proposals would include both an across-the-board cut in corporate and personal income taxes, to take effect January 1, 1963, and long-needed tax reform. He made clear that he was not suggesting a quick, temporary tax cut to prevent a recession, but stated his intention to call Congress back to enact one if economic conditions so warranted. He also stated that he was assured of the support of Mills and his committee.\textsuperscript{151}

No immediate reduction

Thus, during the summer of 1962, the issue was defined as including a burdensome tax structure that stifled economic growth and requiring a tax cut in January, 1963. Although on economic grounds there was no reason to wait until January, the major participants gave great weight to

\textsuperscript{149}Ibid. \hspace{1em} 150Ibid., p. 616.

\textsuperscript{151}Ibid., pp. 616-617. President Kennedy said that Wilbur Mills had assured him of the committee's cooperation in moving the bill with sufficient speed to make January 1, 1963, a meaningful effective date. Ibid., p. 616.
political considerations in defining the issue in the sum-
mer of 1962.\(^{152}\) Given their differing perceptions, partic-
cipants could more easily accept the temporary predominance
of political over economic considerations than try to agree
on a definition of the economic issue that called for im-
mediate action. But the dismal assessment of the possi-
bility of Congressional passage of tax reduction in summer,
1962, also provided grounds for even a proponent of tax
reduction to agree on a January, 1963, date.

Of course, the chronic economic stagnation continued.
And, while strong enough to crystallize the decision to re-
duce taxes, the June, 1962, economic pause was not severe
enough to bring agreement on the need for an immediate tax
cut; no immediate prospect of a recession existed to force
participants to reduce taxes immediately for

\(^{152}\)This discussion of the reasons why no tax cut was
proposed during the summer of 1962 is based on Stein, op.
cit., pp. 408-415, 425-428; Sorensen, op. cit., pp. 472,
477-479; Nossiter, op. cit.; and Flash, op. cit., pp. 247-
248. Flash and Nossiter differ over the meaning of the
postponement of the tax cut. Flash views the August 13,
1962, speech as a reaffirmation of the Administration's
previously stated intention to seek a tax cut, a break with
the governing economic philosophy of the past and a victory
for Heller. He views the commitment for reduction and re-
forms in January, 1963, as an indication that a time limit
had been set on deferring to noneconomic factors. Flash,
op. cit., pp. 246-247. Nossiter, however, views the de-
countercyclical purposes. But the economic argument used to justify a January reduction (i.e., to stimulate economic growth) applied with equal force to the economic situation in the summer of 1962.

Several political considerations influenced the definition of the issue. One important factor was Congressional opposition to an immediate tax cut. Wilbur Mills and Harry Byrd, the chairmen of the two tax committees, opposed immediate reduction. Two liberal senators, Paul Douglas and Albert Gore, were opposed on the grounds that tax reform was the immediate need. A poll of Senate Democrats showed that only a bare majority of them favored immediate reduction. Kennedy's White House political advisers advised him that a tax reduction could not pass. Proposing a reduction would be viewed as an admission that the economy was weak. Moreover, they did not want him to be

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153 For example, Sorensen reports that the August address was given after the July figures had shown no signs of a recession strong enough to convince the President or Congress that immediate action was required. Sorensen, op. cit., p. 481.

154 On this point, see, for example, Flash, op. cit., p. 246.

155 Beginning July 26, 1962, Wilbur Mills held closed door hearings to determine opinion on tax reduction. Many of the witnesses represented business and finance. The thrust of the evidence was that taxes should be cut, but that no emergency required an immediate cut. Stein, op. cit., p. 428. Flash believes that Mills held the hearings with the intention of killing any possibility of immediate reduction. Flash, op. cit., p. 243.
defeated on such a major proposal so close to the November Congressional elections.

The Treasury Department, fearful that an immediate tax cut would jeopardize the planned 1963 tax reform proposals, wanted to use tax-reduction as a "sweetener" for its reform proposals.\(^{156}\) The question of expenditure policy was also relevant to delay, for some participants favored tax reduction, but wanted to tie it to some kind of limitation on expenditures. Moreover, there was no real agreement, either within the Administration or among interest groups, on exactly what kind of tax cut to request. A final consideration was whether Kennedy really wanted an immediate cut. Sorensen suggests that, contrary to the views of others, the President really did not favor immediate reduction. He reports Kennedy remained unenthusiastic about tax reduction, thought more in terms of reform than reduction for 1963, and barely mentioned reduction in the mid-term campaign.\(^{157}\)

Kennedy's commitment to tax reduction wavered for a time in December. His uncertainty stemmed from three developments: (1) Senator Robert Kerr's call questioning a tax cut during an upswing and with an improved outlook for

\(^{156}\)On this point, see, for example, Nossiter, op. cit., p. 26.

\(^{157}\)For Sorensen's assessment of Kennedy's attitude toward tax reduction, see Sorensen, op. cit., pp. 478, 481.
1963; (2) J. K. Galbraith's renewed call for spending increases instead of tax reduction in the face of unmet needs for public services; and (3) the cabinet's negative reaction to the proposed $10 billion tax reduction, as departmental interests in bigger departmental budgets won out over a tax cut. Heller's response to the President was to restate strongly that the economy could take the stimulus of the tax cut and that revenues thereby generated could pay for the programs envisioned by cabinet members and Galbraith. While only somewhat reassured by Heller, the President's own speech the next day to the Economic Club of New York appeared to renew his enthusiasm for the tax cut.158

The President's definition of the issue, January, 1963

In January, 1963, the President used four January messages--the State of the Union, the Budget Message, the Economic Report, and a Special Message on Taxation--to define the issue as primarily a burdensome tax structure that stifled economic growth, the remedy for which was a major tax reduction. This definition of the issue contained at least six major themes: (1) the inhibiting effect of the existing tax structure on economic growth; (2) the ultimately unsatisfactory nature of economic progress during

the Kennedy Administration's first two years; (3) a general explanation of the scope of the tax proposals; (4) specific benefits claimed for the tax program; (5) the tax cut as a fiscally prudent move; and (6) tax reduction as an added precaution against a recession.

A burdensome tax structure stifles economic growth

In his Budget Message, the President discussed the gap between economic potential and performance, which had opened up in 1957 and had not yet closed, and claimed that the restrictive impact of taxes on private spending and production incentives must be eased in order for the economy to function at maximum efficiency. And in his Economic Report, the President emphasized that the primary reason for the tax reduction proposal was a desire to stimulate economic growth rather than any concern about preventing a recession.

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160 The President wrote in his Economic Report: "I do not expect a fifth postwar recession to interrupt our progress in 1963. It is not the fear of a recession but the fact of five years of excessive unemployment, unused capacity, and slack profits--and the consequent hobbling of our growth rate--that constitutes the urgent case for tax reduction and reform. And economic expansion in 1963, at any reasonably predictable pace, will leave the economy well below the Employment Act's high standard of maximum employment, production and purchasing power." Economic Report of the President, January, 1963, Together with the Annual
While recognizing the countercyclical value of automatic stabilizers during the post-war recessions, the Council of Economic Advisers contended that they also stifled expansion before full employment was reached. The Council pointed out that tax cuts, although not deliberately enacted as countercyclical policies, helped to check both the recessions of 1948-49 and 1953-54. They further contended that the fiscal policies of the 1930's were inadequate because they were not pursued vigorously, consistently, and with the proper timing. Moreover, whatever the constructive impact of these policies, it was largely offset by restrictive monetary policy and institutional failures.\textsuperscript{161}

Finally, in his January 24, 1963, \textit{Message on Tax Reduction and Reform}, the President explained that the existing tax structure, originally designed to restrain wartime and post-war inflationary pressures, also inhibited economic growth in non-inflationary times. Reduction in these rates would stimulate economic growth.\textsuperscript{162}


\textsuperscript{162}Ibid., pp. 67-71. The Council states that the moderately expansionary fiscal policy of the 1930's was offset by a series of very heavy tax increases, particularly the Revenue Acts of 1932 and 1936, and at two crucial points shifted abruptly towards contraction--1932-33 and 1937-38. They also state that state and local government spending, then much larger than federal spending, shifted in a highly restrictive direction after 1934. \textit{Ibid.}, p. 71.

\textsuperscript{162}Public Papers of the Presidents of the United States, John F. Kennedy, 1963, p. 74.
The ultimately unsatisfactory nature of economic progress during the Kennedy Administration's first two years

In his 1963 Economic Report, the President specifically explained the unsatisfactory nature of the current economic situation. First, while employment had dropped from 6.7 per cent at the beginning of 1961 to 5.6 per cent at the beginning of 1962, it had fallen below 5 per cent in only one month during the previous five years. Second, GNP rose from an annual rate of $501 billion at the beginning of 1961 to $562 billion at the end of 1962, but $30-40 billion of usable productive capacity still remained idle. Third, the growth rate between 1960 and 1962 averaged 3.6 per cent per year, but the 2.7 per cent average annual rate since 1955 is unimpressive compared to the 4-6 per cent growth rates in Western Europe and the early U.S. post-war rate of 4.5 per cent. Fourth, while corporate profits before taxes stood at a record high in 1962 of $51 billion, the economy could still generate another $7-8 billion in profits at more normal rates of capacity use. Finally, although wages and salaries increased by $28 billion since the trough in the recession in 1961, they could be $18-20 billion higher at reasonably full employment.163

An outline of the Administration's
tax proposals

In his State of the Union Message, President Kennedy outlined his tax program designed to cope with the problem of economic taxation. The tax reduction and reform program would result in a net tax cut of $10 billion annually. The annual reductions in personal income taxes would total $11 billion and in corporate taxes $2.5 billion and tax reforms were expected to bring in $3.5 billion in revenue. In addition, the President proposed making the reduction over a three-year period in order "to achieve this reduction within the limits of a manageable budgetary deficit."164

Specific benefits claimed for the tax program

The major claim was that the tax cut would stimulate economic growth and reduce unemployment.165 The President

164Public Papers of the Presidents of the United States, John F. Kennedy, 1963, p. 12. Kennedy mentioned but rejected alternative ways of achieving economic growth. He rejected massive federal spending because he said private consumers and investors should have a chance first, a temporary tax cut because a long-term problem required a long-term solution and reduction of only individual or corporate income taxes because he said that corporations needed consumers and job-seekers needed jobs. He also rejected reduction without reform on the grounds that unwarranted preferences and inequities also hinder growth. Finally to wait for the end of the Cold War before reducing taxes would be a self-defeating long wait. Ibid., p. 13.

165On this point, see, for example, the President's comments in the State of the Union Message, ibid., p. 12; and in the Economic Report, Economic Report of the President, 1963, pp. xiii, xv.
argued that the major reduction in individual income taxes would increase consumer spending which would, in turn, create new jobs, fuller work schedules, higher profits, and rising farm income. He also contended that the cut in the corporate income tax from 52 per cent to 47 per cent and the reduction of the top individual income tax rate from 91 per cent to 65 per cent would facilitate investment. In addition, the overall deduction in individual income tax rates would stimulate investment due to the rise in consumption.166

The Heller Council discussed the consequences of the tax program in terms of the multiplier effect, i.e., the continuous sequence of expansion that was initially stimulated by the tax reduction. The initial spending increases resulting from the tax cut were expected to generate increased production and employment and so on. The Council predicted a multiplier of approximately 2 for the initial increase in spending resulting from the tax cut. Applying the multiplier only to the initial increases in consumption, which was reported to be $8 billion, the total increase in

166Economic Report of the President, 1963, pp. xv, xvii. The President placed these investment stimulants along side the 1962 investment credit tax provision and the Treasury's revised depreciation schedule. He also expressed confidence that the Federal Reserve and Treasury Department would maintain credit conditions, consistent with their responsibilities for the external defense of the dollar, favorable to long-term investment in the nation's productive capacity. Ibid., pp. xvii-xviii.
annual consumption would be $16 billion, and roughly at least one-half of this total would be realized within six months of that increase. But, in addition to these increases in consumption, there would be another pay-off in terms of additional investment. They expected that each additional dollar of investment would stimulate approximately an equal amount in consumption and that this would stimulate further investment.\(^{167}\)

In his Message on Tax Reduction and Reform, Kennedy claimed his tax program was essential to the attainment of the several goals: full employment of men and resources; increased jobs and investment; increased productivity.\(^{168}\) He also argued that the tax cut would improve the balance of payments situation, as investment is made more profitable, and American plants become more efficient.\(^{169}\) He also specified benefits for various groups. Wage-earners and low-income families would gain an immediate increase in take-home pay. Middle- and higher-income families would benefit as consumers and investors. Businessmen and farmers would benefit from the increased income and purchasing power of consumers and the substantial reduction in taxes

\(^{167}\)Ibid., pp. 47-48, 51.

\(^{168}\)Public Papers of the Presidents of the United States, John F. Kennedy, 1963, pp. 73-74.

\(^{169}\)Ibid., p. 75. See also pp. 88, 103.
on profits. And small businessmen, with net income below $25,000, would receive greater reductions in their corporate taxes than larger businesses.\textsuperscript{170} The President claimed that, proportionally, the lower income groups would receive the greatest savings from the tax plan.\textsuperscript{171}

The tax cut as a fiscally prudent move

The January definition of the issue related the tax cut to more traditional budgetary concepts by pointing to a frugal budget, distinguishing between unintended deficits and deficits designed to strengthen the economy in the long run and by holding out the promise of a budget eventually balanced at full employment. The President stated in his 

\textbf{Budget Message} that he had severely limited his 1964 spending proposals; the fiscal 1964 budget contained higher spending for defense, space and interest on the debt, but held spending for all other programs in the administrative budget to the current year's level.\textsuperscript{172} He also argued, in

\begin{itemize}
  \item \textsuperscript{170}Ibid., p. 77.
  \item \textsuperscript{171}Taxpayers whose adjusted gross income is less than $3,000 would receive a reduction of nearly 40 per cent while those with incomes over $50,000 would receive a reduction of slightly less than 10 per cent in tax liabilities. Ibid., p. 91.
  \item \textsuperscript{172}Ibid., p. 27. The proposed administrative budget was expected to have an $11.9 billion deficit, the consolidated cash budget a deficit of $10.3 billion and the national incomes account budget a deficit of $7.6 billion. Ibid., pp. 27-28.
\end{itemize}
a theme repeated in other messages, that the immediate choice was not between a tax cut and a balanced budget, but between chronic deficits resulting from a slow rate of growth and temporary deficits resulting from a tax program to promote fuller use of resources and more rapid economic growth. In a further attempt to link the tax cut to more traditional views on taxation, Kennedy said that "a substantial part of the revenue increases must go toward eliminating the transitional deficit." 

In his tax message, the President stressed that tax reduction was the most likely way to achieve a balanced budget because the reduction would generate an increase in national income which, in turn, would generate increased revenues. Within a few years of enactment, federal revenues would be greater than they would be if existing rates continued. Moreover, as full employment is approached, government spending caused by unemployment could be reduced.

The President also contended that the national debt was not currently and was unlikely to become a great burden.


174 Public Papers of the Presidents of the United States, John F. Kennedy, 1963, p. 29.

175 Ibid., p. 77.
The nation's ability to service the debt depended on the income of citizens whose taxes pay the interest; indeed, the federal debt had become less of a burden in recent years.\footnote{176}{The total federal interest, expressed as a percentage of the national debt, had dropped from 2.8 per cent in 1956 to 2.1 per cent in 1962. During the same period, the gross debt as a percentage of GNP had also fallen, from 123 per cent to 55 per cent. The President also compared the increase since the end of 1956 in the federal debt held by the public with increases in other kinds of debt: federal debt held by the public, $12 billion; net state and local debt, $58 billion, and net corporate debt, $237 billion. \textit{Economic Report of the President, 1963}, p. xviii.}

Tax cut as an additional precaution against recession

The January Messages expressed the view that tax reduction constituted an added precaution against a recession, although this was by no means its major justification, nor was any recession likely. The President said, for example, in his \textit{Economic Report} that, while the basic purpose of the tax program was to meet longer run challenges, a net $10 billion annual income tax reduction would serve as a major counter force to any recessionary tendencies that might appear.\footnote{177}{Ibid., p. xxi.}

The priorities of reform and reduction

Once the Administration defined the issue as economic stagnation and proposed as a remedy a major tax
reduction coupled with tax reform, a question arose as to the degree to which the Administration was committed to tax reform. The President and other participants in the Administration, excluding the Treasury, evidently were more committed to reduction than reform. At his January 24, 1963, news conference, President Kennedy stated his desire for the entire tax package, but also his view that action in 1963 was the major priority. He inferred Congress would have to make the decision on whether reform and reduction were possible. However, he did say that, in the absence of offsetting reforms, the amount of reduction would have to be reduced. In February addressing the American Bankers Forum, the President indicated that the tax cut had priority over tax reform, much to the dismay of the Treasury. Dillon subsequently got the President to plug reforms.

Formulation

The Administration's tax proposals were formulated by the President's major economic advisers with some assistance from his domestic political advisers. The economic advisers performed this function in their individual capacities, as members of the Cabinet Committee on Economic Growth, and in ad hoc groups. This discussion

178Public Papers of the Presidents of the United States, John F. Kennedy, 1963, p. 96.
179Rowen, op. cit., p. 244.
will focus on the contributions of three major sets of participants—the Treasury Department and its tax reform proposals, the Cabinet Committee on Economic Growth and their tax reduction proposals, and a late December meeting of the President's economic and political advisers, which actually drew up the bill. The final set of Administration tax proposals represented a compromise among the positions of various Administration participants and also took into account the perceived positions of other powerful participants, such as Ways and Means Chairman Mills.

The Treasury and tax reform

After Congress passed the Administration's tax reform measures in October, 1962, the Treasury's tax analysis and legislative staff turned its attention to the reform proposals for 1963, which the Department had been long anticipating. The Department resumed meetings with its outside consulting experts. From October to mid-November, the Treasury considered and developed specific proposals advanced by the staffs of Harvey Brazer, the Deputy Assistant Secretary and Director of the Treasury's Office of Tax Analysis, and Donald C. Lubick, the Director of the Office of Tax Legislation. Secretary Dillon and Undersecretary Fowler played an active role in these activities with Assistant Secretary for Tax Policy Stanley Surrey and his staff. Neither the CEA, Budget Bureau, nor the White House Staff
participated in developing the reform proposals at this stage.\(^{180}\)

**The Cabinet Committee on Economic Growth**

In August, 1962, President Kennedy established a Cabinet Committee on Economic Growth, chaired by Heller and consisting of Treasury Secretary Dillon, Commerce Secretary Hodges, Labor Secretary Wirtz, and the Budget Bureau Director, to serve as the focus for concentrating the government's interest and activities on the objective of economic growth.\(^{181}\) At its October 26, 1962, meeting, the committee considered a paper by Brazer on the impact of taxes on full employment.\(^{182}\) Brazer presented arguments that he, the CEA, and others had developed in favor of tax reduction and the paper concluded that a net reduction of $10 billion would be consistent with growth and stability.

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\(^{180}\)Flash, op. cit., p. 253.

\(^{181}\)According to the 1963 Economic Report, this committee was established to emphasize the high priority of economic growth in the formulation of policy. It was charged with identifying key measures for achieving more rapid economic growth. Economic Report of the President, 1963, p. 61.

\(^{182}\)Present at this meeting were: Heller; Brazer, Dillon, Fowler and Dewey Doane from the Treasury Department; Bell and Schultze from the Budget Bureau; Richard Holton of Commerce; Secretary Anthony Cellebrezze and William Cohen of HEW; Secretary Wirtz and Seymour Wolfbein of the Labor Department; and William Capron of the CEA staff, who served as secretary. Flash, op. cit., p. 254.
In a report to the President, signed by Dillon, Undersecretary Gudeman of Commerce, Wirtz, Bell, Heller, and Capron, the Committee recommended a $7-12 billion net reduction "as soon as possible," major reductions in rates for all income brackets, and revision of the depletion allowance and other provisions governing natural resources.\textsuperscript{183}

This meeting and the Brazer paper symbolized the developing consensus within the Administration for a significant tax reduction. The meeting and report, in effect, committed Dillon and his department to a substantial reduction. But, according to Flash, unless Dillon were changing his attitude, he would not have permitted Brazer to deliver the paper, nor would he, himself, have attended. By so changing, he was in a position to exercise control over the developing tax proposals. For his part, given the state of the economy and his desire for a quick, strong stimulus to economic growth, Heller favored a cut of at least $7-8 billion in 1963, out of a projected total reduction of $10-12 billion, with the second stage of the cut to be combined with substantial reform.\textsuperscript{184} The President's Labor Management Committee in November, 1962, advocated a $10 billion reduction early in 1963 and clearly argued that tax reform should not be permitted to delay urgently needed

\begin{footnotes}
\footnote{183}Ibid., pp. 255-256.
\footnote{184}Ibid., pp. 256-258.
\end{footnotes}
reductions in the tax rates.185

Heller and Dillon differed on the relative desirability of reduction and reform, although they seemed to accept the necessity for at least some of both. Heller perceived reduction as the key action and was interested in reform only insofar as it strategically affected reduction while Dillon preferred reform and was interested in reduction only insofar as it affected reform.186 After Thanksgiving, Dillon argued for a combination of reduction and reform that would produce a minimum deficit and reportedly suggested to the President a reduction in fiscal 1964 expenditures from $98 billion to $96 billion. Heller, on the other hand, justified tax reduction to the President and public through a series of analyses, speeches, and articles. Towards the end of 1962, participants in the Administration, anticipating the January deadlines imposed by the President's State of the Union Message, Economic Report and Budget Messages, were forced to fit together the Administration's 1963 budgetary and legislative proposals.187

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185Ibid., p. 259.

186Ibid., pp. 260-261. Addressing the President's Labor-Management Committee in November, 1962, Dillon supported Heller's position to apply the major portion of reduction to individual rates. However, he would be no more specific than to indicate that he would accept some cuts in early 1963 if the rest were to be linked to tax reform to come later. Ibid., pp. 258-259.

187Ibid., pp. 261-262.
The views of Wilbur Mills, Chairman of the House Ways and Means Committee, had an important impact on the formulation of Kennedy's tax proposals. A long-time proponent of tax reform, Mills agreed that a long-run effect of the high tax structure was to prevent full employment, but he did not totally accept the CEA's rationale for a tax cut under economic conditions then prevailing. He apparently believed that reducing the tax burden was desirable and that tax reduction would so stimulate business that revenue will eventually increase, but he was concerned about a short-term increase in the deficit. He further believed that a tax cut designed solely to affect the economy could not pass Congress until a downturn was generally discernable. He did endorse the goal of reducing individual income tax rates from their existing range to the range of 15 per cent to 65 per cent and reducing corporate income tax rates from the existing 52 per cent level to 47 per cent.188

He seemed to tie tax reduction to control on federal spending or to tax reforms. If there was to be a tax cut, he wanted some control over spending increases, but not necessarily a spending reduction equal to the amount of revenue

loss. Mills was deeply interested in major tax reform, but thought the passage of such a bill would be difficult, particularly in view of the experience of the 1962 tax bill and of past major tax bills, which had taken two sessions to pass. At one point, he even hinted that not all the revenue loss from reduction would have to be compensated for through tax reforms. ¹⁸⁹

Final formulation of the tax proposals

Heller, Budget Director Gordon, Dillon, Fowler, and Surrey from the Treasury Department, and Sorensen, O'Brien, and Feldman from the White House Staff, took part in the final deliberations on the tax bill that occurred after Christmas, 1962, at the President's Florida vacation home. They dealt with four major points: the size of the reduction; the connection between reduction and reform; the timing of the application of the reductions; and the amount of reduction in the corporate tax rate. In making these decisions, Kennedy followed three decision rules: the deficit must not exceed Eisenhower's largest ($12 billion); civilian domestic spending should decline; and the administrative budget should be held below $100 billion. ¹⁹⁰

¹⁸⁹ I b i d., p. 43.
¹⁹⁰ S o r e n s e n, op. cit., p. 482; Flash, op. cit., p. 265.
Stein contends that the size of the reduction was first decided and that other decisions were accommodated to it. The CEA was the major proponent within the Administration of a net reduction of approximately $10 billion, which the Council calculated as the amount of tax reduction necessary to bring the economy to full employment. In addition, the November 19, 1962, $10 billion tax reduction recommendation of the President's Advisory Committee on Labor-Management Policy, had been interpreted as the figure agreed on by business and labor.\textsuperscript{191} In Stein's view, the CEA's calculations were a major factor in the Administration's decision to recommend a $10 billion tax reduction. The Council's economic calculations and the bargaining calculations of outside groups reinforced each other.\textsuperscript{192} While the CEA and outside groups were generally advocating a $10 billion cut, the Treasury was seeking to keep the reduction as small as possible. For the Treasury, a decision for a fairly large across-the-board reduction did not

\textsuperscript{191} Stein, op. cit., pp. 430-432. While neither business nor labor felt it had received its fair share, both were satisfied with the total amount of reduction. Ibid., p. 430.

\textsuperscript{192} Ibid., p. 433. The CEA could argue that the $10 billion sum fit its model and was also what outside groups expected. And knowing that the Council was advocating a cut of $10 billion encouraged the outside groups to develop programs up to that size. Ibid., p. 433.
necessarily imply a cut as large as $10 billion.\footnote{Ibid., p. 431.} Participants in the deliberations understood the great value that the Treasury Department and Mills placed on tax reform. But by December, tax reduction had been established as an end in itself. The Treasury had to accept reform attached to reduction instead of the other way around.\footnote{Flash, op. cit., p. 265.}

The Palm Beach group decided to spread the $10 billion tax reduction over three years because, with expenditures set at $98.8 billion, this was the only way to keep the deficit smaller than Eisenhower's largest.\footnote{Stein, op. cit., p. 435. Only a small part of the revenue loss would be felt in 1964 and the full impact would not be felt until 1966. Ibid.; see also Rowen, op. cit., pp. 236, 240-241.} As formulated, the tax cut was expected to add $2.7 billion to the already anticipated $9.2 billion deficit for fiscal 1964, thus making a fiscal 1964 deficit of $11.9 billion, but still below the Eisenhower record deficit of $12.4 billion.\footnote{Rowen, op. cit., p. 241. Rowen contends that spreading the tax cut over three years meant that the net effect of changes in federal, state, and local taxes was to raise, not lower, the tax burden. Ibid., p. 236. He also reports Heller as stunned and disappointed, but still able to defend the program. Ibid., p. 237.} The timing of the cut and the holding down of
expenditures met conditions laid down by Mills, whose views President Kennedy evidently felt were widely shared in Congress and in the public. 197

A final important decision made at the Palm Beach meeting was to reduce the corporate income tax rate to 47 per cent. While other participants in the Administration believed that 49 per cent was low enough, Kennedy, acting on the advice of Dillon and Sorensen, decided on 47 per cent. Rowen suggests that major factors in this decision were Sorensen's advice and a desire that the Administration be regarded as "even-handed" in apportioning the cut between business and consumers. 198

The President outlined his tax program in his State of the Union Message. He suggested a combination of reduction and reform that would result in a net annual reduction of $10 billion. The total reduction in tax liabilities of $13.5 billion was to be partially offset by tax reforms bringing in $3.5 billion in revenue. Eleven billion dollars of the tax reduction was to result from a reduction in the scale of income tax rates from the existing range of 20 per cent to 91 per cent to a new, lower range of 14 per cent to 65 per cent. Two and one-half billion dollars was

197 Stein, op. cit., p. 434.
198 Rowen, op. cit., p. 240.
to result from the reduction in the corporate income tax rate from its existing 52 per cent rate to the permanent pre-Korean War low of 47 per cent. Tax cuts would be spread over three years, with the first reduction, amounting to $6 billion in annual rates, occurring at the beginning of 1963. Tax reforms were to begin in 1964. The President also proposed shifting the payment schedule for corporate taxes to a more current basis, thereby increasing budget receipts by $1.5 billion without any increase in tax liabilities.\(^9\)

**Communication**

John F. Kennedy played an important role in transmitting information about and stimulating interest in the problem of economic growth, first as a candidate and then as President. In speeches, messages, and press conferences as President, he sought to educate the public and other participants in the policy-making process about the problem of economic growth and the tax cut as an appropriate response. His June 11, 1962, Yale speech and his December 14, 1962, Address to the Economic Club of New York may be

\(^{199}\) The President pointed out that this last benefit to business was in addition to the more than $2 billion reduction in corporate tax liabilities resulting from the 1962 investment tax credit and depreciation reforms. Public Papers of the Presidents of the United States, John F. Kennedy, 1963, p. 12.

\(^{200}\) Ibid.
viewed as attempts to educate the public in modern economics. 201

Heller and the CEA also performed the communications function. Kennedy told him in January, 1961, to use the White House as a forum for educating the public in economics, especially the desirability of a deficit during a recession and also to make clear that the recession started last year. Heller believed that the CEA's job included engaging in a dialogue in depth on behalf of the President. This involved explaining concepts and introducing new ideas into speeches, press conferences, "backgrounders," and meetings with various groups. 202

The CEA also transmitted information to the President and to other participants in the policy process. In Heller's view, the Council's access to a president depended on developing concepts and policies to fit his philosophy and purposes. The Council's concepts of economic potential, GNP gap, and the targets of four per cent unemployment and four and one-half per cent annual growth gave

201 Heller gives Kennedy high marks as an educator in economics: "President Kennedy's landmark speech at Yale stands as the most literate and sophisticated dissertation on economics ever delivered by a President (and he wrote much of it himself). In that speech, in his two annual economic messages, in two nationwide television talks on the tax cut, in press conferences, in White House statements, and in speeches, he put Presidential economic discourse on a wholly new plane." Heller, op. cit., p. 37.

202 Ibid., pp. 26, 41.
concrete shape to Kennedy's purposes. Heller also relates the importance of convincing members of the White House Staff that the Council's views should be considered before decisions were made. Up to mid-1962, the President was the chief student of the CEA's economic instruction. The Council members recognized that their advice must reflect the realities of politics. Flash suggests four particular reasons for the impact of the Heller Council: the faltering in early 1962 of a recovery, barely twelve months old, in the context of other post-war recessions; the receptivity of the President to economic ideas along with the fitting of Heller's ideas into Kennedy's style of leadership; the good fortune of having Dillon as Secretary of the Treasury; and the professional competence of the Heller Council.

The Cabinet Committee on Economic Growth, the "Troika," and the Quadriad (or Big Four) and Seymour Harris' group of Treasury consultants also performed the communications function. The Cabinet Committee provided

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203 Ibid., pp. 53-54.

204 Stein, op. cit., p. 395.

205 Harris reports asking the members of Kennedy's CEA "whether they restricted their advice to the economics of the issue. Their reply was that they would be thrown out of the President's office if they proposed policy on purely economic considerations." Harris, Economics of the Kennedy Years, p. 33.

206 Flash, op. cit., pp. 272-274.
a means for Heller to expound his views in the development of the tax proposals. The "Troika," consisting of the Treasury Secretary, the CEA Chairman, and the Budget Director, met with the President every two or three months for a discussion of the economic outlook. The "Big Four," i.e., the "Troika" plus Federal Reserve Board Chairman Martin, met regularly approximately once every five or six weeks. Occasionally, another CEA member or Treasury Undersecretary Roosa would be invited to attend.  

Both Martin and Kennedy believed these meetings were useful. One result of an initial "Big Four" meeting was Martin's agreement to abandon the "bills usually" policy and, instead, buy some longer maturing government obligations in an effort to drive down the long-term interest rate. The CEA had convinced the President of the necessity for such a move because lower long-term interest costs would help stimulate investment. In addition to these "Big Four" meetings, there were other regularized contacts between the

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207 Rowen, op. cit., p. 208. Rowen contends these meetings were unlike those Anderson initiated towards the end of Eisenhower's second term because they were less formal and involved a "give-and-take" discussion of current and future policy. Martin was impressed by the grasp of monetary policy and Federal Reserve problems demonstrated by Kennedy, who had been coached by Heller and Tobin prior to the first meeting. Ibid., p. 209.


209 Ibid., p. 211.
Mobilization

The mobilization function refers to the mobilization of support for or opposition to the President's tax proposals. There was rather wide support for the principle of a tax cut, but disagreement over: (1) whose taxes should be reduced; (2) whether reforms should be included; and (3) whether a tax reduction should depend on controlling federal spending.

The President mobilizes support

The President and Heller played important parts in performing the mobilization function. In the formulation of his tax program and budget, the President tried to broaden support for tax reduction by holding total spending below $100 billion, keeping domestic spending at the previous year's level, spreading the tax cut over three years, and coupling reforms with reductions. He also tried to mobilize support through his press conferences and addresses. In these comments, he seemed to rest the case for the tax

\[210\] On Mondays, Martin met with Dillon and other top Treasury officials and on Wednesdays Undersecretary Roosa returned the visit. Both of these meetings were concerned with debt management and related problems. Every other week, Dillon and Martin met with Fowler and Heller usually in attendance. Ibid., p. 214.

\[211\] Congressional Quarterly Almanac, 1963, p. 473.
cut at least equally on two grounds—stimulating economic growth and preventing a recession.  

The President also used his appearance before the American Bankers Association Symposium on Economic Growth, on February 25, 1963, to build support for his tax program. He argued that economic growth would provide jobs for those entering the labor force each year, preventing periodic recessions and ending the persistent slack that had kept unemployment at five per cent or more for sixty-two of the last sixty-three months. The tax proposals were fiscally prudent because the increased economic growth would generate additional revenues that would be used to reduce the deficit until the budget was balanced. Possible unfavorable consequences of inaction on the tax program included recession and increased deficits. As for tax reforms, Kennedy implied a willingness to sacrifice them if necessary for tax reduction, but indicated that such a

212 For example, he argued at his February 14, 1963, news conference, that the tax cut was in the best interests of the nation (citing the stimulating effect of the 1954 tax cut) and that a failure to cut the restrictive, wartime tax rate structure would mean slower economic growth, higher unemployment, pressure for a thirty-five hour work week and a possible recession. Public Papers of the Presidents of the United States, John F. Kennedy, 1963, pp. 173-174. For another example of Kennedy's use of the fear of recession, see his comments at his March 21, 1963, news conference, ibid., p. 276. On this point, see also Heller, op. cit., p. 35; Rowen, op. cit, p. 244; and Stein, op. cit., p. 439.
sacrifice would require a rewriting of the entire package
in order to keep the reduction down at $10 billion.\footnote{213}

At his March 6 press conference, Kennedy tried to
place more emphasis on reforms by stating he did not tell
the bankers' meeting he would accept a $13.5 billion re­
duction without reform, by restating his claim that his
was the best tax program and by indicating his belief that
Congress will pass a bill "which will include important
elements of the reforms that we sent up."\footnote{214} At an April
news conference, Kennedy responded to former President
Eisenhower's suggestion of a $13 billion reduction in the
budget by comparing the prudence of his fiscal policy with
the largest post-war deficit that occurred during the 1958
recession under Eisenhower.\footnote{215} Kennedy emphasized that the
major spending increases during his Administration were for

\footnote{213} Ibid., pp. 210, 212, 217. On the possibility of
a recession, Kennedy said, "I am not predicting a recession
for 1963, but we cannot escape the fact that the period of
expansion between the first and second postwar recessions
lasted 45 months, the period between the second and third
lasted 35 months, the period between the third and fourth
lasted 25 months, and the American economy is now in its
24th month of recovery from the fourth postwar recession."  
Ibid., p. 212.

\footnote{214} Ibid., p. 237.

\footnote{215} Kennedy further commented that Eisenhower had
turned to a poor source for advice--Maurice Stans. As
Eisenhower's Budget Director, Stans had presided over the
largest peacetime deficit, two recessions, largest outflow
of gold in history and the highest peacetime unemployment
since World War II.  Ibid., p. 307.
space and strengthening the military and that nondefense spending increased less during the first three years of his Administration than during the comparable period of Eisenhower's tenure. But rather than cut such spending, he was concerned it might not be enough, since the country was growing by four million people per year.216

Prior to the House vote on the tax bill, President Kennedy made a radio-TV address to the nation in which he described the tax bill as "the most important domestic economic measure to come before the Congress in fifteen years" and provided concrete illustrations of the tax reductions a typical family would receive and of the jobs it would create. He restated claims he had made previously with respect to the impact of the wartime tax structure and the possibility of a recession.217

Lyndon Johnson also performed the mobilization function after assuming the Presidency. Despite some initial doubts, he accepted Heller's theories and made a "deal" with the Senate Finance Committee Chairman Harry Byrd, promising to reduce expenditures to $97.9 billion (even lower than the $98 billion level contained in the House

216Ibid., p. 308.

217Ibid., pp. 687-691. Kennedy noted that, with the exception of war years, the country had experienced a recession on the average of every 42 months since World War II, every 44 months since World War I, and that next January would be the 44th month since the last recession began. Ibid., p. 688.
Republican recomittal motion) in exchange for Byrd's promise to expedite action on the tax cut.\textsuperscript{218} The desire of Senate leaders to complete action on the tax bill before the Senate got tied down by a civil rights filibuster in 1964 was also relevant to speedy Senate action.\textsuperscript{219}

Chairman Heller also played an important part in mobilizing support. Rowen reports that he spent all his time in 1963 advocating and defending the tax cut, even when liberals criticized it for being spread too thinly over too long a period of time.\textsuperscript{220}

The Administration and business support

An important aim of the Administration's mobilization strategy was the support of business. The President, Secretary Dillon and Undersecretary Fowler played important roles in trying to mobilize their support. The tax cut had been formulated with an eye toward gaining the support of business groups, by providing benefits for both corporations and individuals and by distributing individual benefits throughout the tax structure.\textsuperscript{221} In addition,

\begin{itemize}
\item \textsuperscript{218}Sundquist, \textit{op. cit.}, p. 52.
\item \textsuperscript{220}Rowen, \textit{op. cit.}, pp. 167-168.
\item \textsuperscript{221}Sundquist, \textit{op. cit.}, p. 48.
\end{itemize}
throughout 1962, there had been indications of support for tax reduction from the business community. 222

The President specifically sought to mobilize business support in his December 14, 1962, speech to the Economic Club of New York, in which he stressed themes common to the Administration's case for reduction--appealing both to patriotism and economic self-interest and contending that the Administration was following a fiscally prudent course. 223

While Heller and Wirtz had tables for labor and liberals showing lower-income groups getting the largest proportionate tax reduction, Dillon and Hodges had analyses showing the benefits to business contained in the bill--reductions in the top individual brackets and in the bill.

222 For example, on June 29, 1962, Ladd Plumley, speaking for the Committee on Taxation of the U.S. Chamber of Commerce, recommended an immediate $8 billion tax cut. Stein, op. cit., p. 417. In November, the President's Advisory Committee on Labor-Management Policy supported a large tax cut. Ibid., p. 418. On December 14, 1962, the Committee for Economic Development supported an $11 billion reduction to take effect in two parts--$6 billion effective January 1, 1963, and $5 billion when and if it became clear that fiscal 1964 spending could be held at the fiscal 1963 level. Stein believes that, in their hearts, CED members favored reducing corporate profits taxes and the upper bracket individual income taxes and favored restraint in federal spending, but they also recognized political (and perhaps even economic) reasons for an across-the-board reduction with an increased deficit, which they were willing to accept. Ibid., p. 419.

223 Public Papers of the Presidents of the United States, John F. Kennedy, 1963, pp. 876-879.
corporate income taxes—as well as those contained in the previous year's tax measures.\textsuperscript{224} Unlike the Eisenhower Administration, the Kennedy Administration, in connection with the tax cut, placed a ceiling on nondefense spending and Dillon and Fowler so informed business audiences throughout the country.\textsuperscript{225}

Treasury Undersecretary Fowler was instrumental in mobilizing formal business support for the Administration's tax proposals. Upon the prodding of Dillon and Fowler, big businessmen formed the Business Committee for Tax Reduction in 1963, with Henry Ford II and Stuart G. Saunders (President of the Norfolk and Western Railroad and as of October 1, 1963, chairman of the Pennsylvania Railroad) as co-chairmen. Composed of about three thousand businessmen, this group favored a $10 billion cut effective in 1963, if possible, and opposed reforms.\textsuperscript{226} Fowler also helped form a more broadly based group headed by the President of Grinnell College, Iowa, Howard R. Bowen.\textsuperscript{227}

\begin{itemize}
\item \textsuperscript{224}Sorensen, \textit{op. cit.}, p. 484.
\item \textsuperscript{225}Rowen, \textit{op. cit.}, p. 242.
\item \textsuperscript{226}Ibid., p. 243. See also Harris, \textit{Economics of the Kennedy Years}, pp. 44-45; and Sundquist, \textit{op. cit.}, p. 48.
\item \textsuperscript{227}Sundquist, \textit{op. cit.}, p. 48.
\end{itemize}
Mobilization of support in the House

Another important element in the Administration's strategy was to gain the support of Chairman Wilbur Mills of the House Ways and Means Committee. From the beginning of his Administration, President Kennedy had tried to cultivate Mills' support and invited him to the White House for discussions on tax policy.\footnote{\textsuperscript{228} Mills' December, 1962, \textit{U.S. News and World Report} interview was widely regarded as indicating a negative position on tax reduction. But at his December 12, 1962, news conference, the President said that the article read in its entirety suggested that, under some circumstances, the Administration and Mills might not be that far apart. He stated he would see Mills that day, that he would proceed with his program, and that the Ways and Means Committee and Congress, in which Mills' view would be very influential, would have to decide on the program.\textsuperscript{229} The tax reform provisions of Kennedy's tax proposals would be attractive to Mills. Although the President agreed tax reforms were overdue, they could not even get out}

\footnote{\textsuperscript{228} Ibid., p. 49.}

\footnote{\textsuperscript{229} President Kennedy stated: "Quite obviously, Mr. Mills will have a very decisive voice in the final decision, but we hope to adjust our viewpoints so that we can get some action on this program next year." \textit{Public Papers of the Presidents of the United States, John F. Kennedy, 1963}, p. 868.}
of Mills' committee. Mills, who was doubtful about a tax cut when no recession threatened, initially agreed to a major tax reform bill, with a little tax reduction to help pass it. But the bill went through many stages in which tax reform declined and tax reduction increased in importance until Mills ended up supporting a bill which contained major tax reduction but only a little tax reform.  

In August, 1963, President Kennedy sent a letter to Mills commending him and the committee on their work on the tax bill. He stressed the need for enacting the bill that year and spent much time promising fiscal frugality. He also called for rejection of Republican attempts to tie tax reduction to specific spending restraints.  

The House Ways and Means Committee held hearings on the President's tax proposals from February 6 to March 27, 1963. Testifying on February 6 and 7, Secretary Dillon repeatedly stressed the importance of including reforms with reductions; a failure to enact the reforms would necessitate an increase in the proposed new rates. He would have to recommend a veto if the version passed contained all the reductions but no reforms. However, he did not state whether he would recommend a veto if only some reforms were


231 Public Papers of the Presidents of the United States, John F. Kennedy, 1963, pp. 637-638.
approved. He believed that a total revenue loss of $10 to $10.5 billion (the amount the Administration proposed) was as large as would be fiscally responsible.\textsuperscript{232}

Dillon had to defend the reform proposals from attack by Republican committee members. In an indirect reply to Republican criticism that the President's proposals took back from the middle class through reforms all the benefits it received through reduction, Dillon stressed that all income groups would benefit from the tax proposals and that reduction and reform were interdependent. Reduction alone would make many of the existing deductions and exemptions unfair. But he admitted that "the most important thing now is to get the economy moving and reduce unemployment" through tax reduction and so some reform proposals might have lower priority.\textsuperscript{233} Republican committee members, such as Byrnes and Thomas B. Curtis, sharply criticized the President's proposal to limit the total itemized tax deduction to those in excess of five per cent of the taxpayer's gross income. Byrnes argued that the lower rates would benefit both those who itemize and those who do not (and take the standard deduction instead), but that the first group, whom he regarded as the backbone of the great American middle-class, would be placed at a

\begin{footnotesize}
\begin{itemize}
\item \textsuperscript{232}\textit{Congressional Quarterly Almanac, 1963}, pp. 476-477. \textsuperscript{233}\textit{Ibid.}, p. 477.
\end{itemize}
\end{footnotesize}
greater disadvantage by the limit on itemized deductions. Dillon replied that the five per cent limitation was "inextricably tied" to the package. In March, the Administration claimed that a dropping of the five per cent limitation would require a rate structure of 14.3 per cent to 75 per cent instead of the proposed 14 per cent to 65 per cent. Secretary Hodges testified that the tax proposals would substantially increase consumer spending, thereby providing more jobs, and that the resulting improved profits and greater demand would encourage investment, creating even more jobs. Secretary Wirtz testified that the rapidly increasing labor force required a major change in the tax structure to permit additional job opportunities. He also stated that if the nation did no better in supplying jobs in the five years after 1963 than in the five years before 1963, unemployment would continue to rise and exceed seven per cent, leading to demands for a shorter week and opposition to technological change. Budget Director Gordon testified on February 18, 1963, that the budget for fiscal 1964 was "tight" in order to hold down expenditures in a

234Byrnes stated: "You're going to favor the person who doesn't own his home, who doesn't pay real estate taxes, who doesn't support his church, who doesn't give to the Community Chest and who doesn't do all the things we consider necessary to support our society." Ibid.

235Ibid.
period of the tax cut. In addition, business groups testifying in favor of tax reduction included the U.S. Chamber of Commerce, the National Association of Manufacturers, the American Bankers Association, the New York Stock Exchange, and various trade associations. An important aspect of the President's mobilization strategy in the House was the sacrifice of the reforms contained in the bill, which was accomplished in August, 1963. The majority report argued that the bill's principal purpose was the removal of the "present high tax straight jacket" from the private sector and a secondary purpose was the improvement of tax equity. The bill would stimulate the economy and, after a brief transitional period, increase revenue. The report also stressed that tax cuts required a "tighter rein" on government spending and asserted that "top priority cannot be given both to tax reductions and to spending at the same time." Faster

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236 Ibid., pp. 477-478.
237 Sundquist, op. cit., p. 48.
238 The majority report stated that new investment opportunities would arise from the reduced corporate income tax rates and the 1962 investment tax credit and depreciation reforms, the lower personal income tax rates in the middle and upper brackets and increased demand. Moreover, reductions in individual income tax rates would stimulate consumer spending, for consumers normally spend 92-99 per cent of their additional income. Congressional Quarterly Almanac, 1963, p. 483.
239 Ibid.
economic growth resulting from the bill would play a "key role" in reducing unemployment and providing jobs for new workers, help eliminate unused plant capacity and assist in coping with the balance-of-payments problem. The majority report also rejected the possibility of inflation because of unused labor and plant.\textsuperscript{240}

Administration supporters stressed that the tax cut was preferable to increased spending as a method of stimulating the economy, while at the same time defeating Republican moves to make the cut dependent on a specific level of spending. In place of a Republican attempt to tie the tax cut to a certain spending level, the Ways and Means Committee substituted a sense of Congress resolution, stating that revenues produced by the tax cut's stimulating effect on the economy should be used first to eliminate budget deficits and then to reduce the national debt and that Congress "accepts the responsibility" for restraining spending and "urges" the President to "adhere to this objective."\textsuperscript{241} On September 16, Chairman Mills issued a statement, endorsed by President Kennedy, saying that the bill, with the sense of Congress provision in it, indicated that the government chose tax reduction over spending increases to stimulate the economy and that no governmental

\textsuperscript{240}Ibid., p. 485.

\textsuperscript{241}Ibid., p. 483.
activity should be justified solely in terms of its contribution to total spending, but rather that all activities must serve essential national purposes.\textsuperscript{242}

Administration supporters were able to prevent a strong Southern Democrat-Republican coalition from forming. In a meeting of the informal group of conservative Southern Democrats, the so-called Boll Weevils, the most conservative Democrat on the Ways and Means Committee argued against supporting the Republican recommittal motion on the grounds that it was a phoney attempt at economy.\textsuperscript{243} The Weevils' chairman, Omar Burleson of Texas, even opposed the Republican recommittal motion on the floor.\textsuperscript{244}

Leading the floor debate, Mills portrayed the tax cut as an anti-spending, anti-deficit measure; a temporary deficit was needed to achieve a balanced budget later.\textsuperscript{245} Of the two ways to achieve a prosperous economy--tax reduction and increased government spending--he preferred the first because it provides a higher level of economic

\textsuperscript{242}Ibid., p. 486. On September 17, the President wrote Mills: "I thought your Monday release in support of the tax bill was excellent. It should be convincing to members of Congress and I subscribe to it." Ibid.


\textsuperscript{244}Sundquist, op. cit., p. 49.

\textsuperscript{245}Ibid., p. 50.
activity, a more prosperous and efficient economy with an increasing share of economic activity originating in the private sector. He called the tax bill "a turning point in economic policy" and a step away from big central government. If no attempt were made to solve economic problems by stimulating free enterprise, an attempt would be made to solve them by increased government spending.

Debate in the House tended to focus on spending policies. Southern Democrats played an important part in mobilizing opposition to the Republican attempt to recommit and limit spending. Burleson of Texas, A. Sidney Herlong of Florida, and George Mahon of Texas, the ranking Democrat on the Appropriations Committee opposed the Republican motion to recommit, not arguing the merits of the tax cut but claiming that the Republican motion to recommit constituted a partial surrender by the House and Congress of the power of the purse and that business could plan better if it knew that the tax cut did not depend on uncertain Presidential action.

Mobilization of opposition in the House

Participants seeking to mobilize opposition to the

246 Stein, op. cit., pp. 447-450.
tax bill focused on charges of excessive spending. Southern Democrats and Republicans were concerned about reducing taxes when there was a budgetary deficit. Representative Thomas B. Curtis charged the Administration with advancing radical new attempts to use fiscal policy to influence the nation's economy and chided the Administration for failing to talk directly about planned deficits, despite the President's Yale speech. However, the Administration chose not to debate on those terms, and, instead, became defensive about its spending plans and assumed a rather orthodox position.249

The minority report, signed by nine of the ten Republicans on Ways and Means, termed the tax bill part of an overall plan of planned deficits. While they favored tax reduction, they opposed this bill, which they said would bring inflation and the cheapening of the dollar, until federal spending was controlled. They claimed that the President gave Congress misleading information on spending, that the spending cuts were a "mirage" and that higher spending could be expected. The tax bill would cut unemployment only through inflation, since the real unemployment problem was a lack of skills among young workers.250

250 Ibid., p. 485.
The minority report also argued that the bill increased tax inequity. They criticized its emphasis on growth through consumer spending instead of through higher capital investment and called the proposed repeal of the four per cent dividend credit "class legislation," which "epitomizes the demogogic approach which has been resorted to time and again by the majority." Because of acceleration of corporate tax payments, corporations would generally not receive the benefits of lower rates until 1969. The tax rates and reforms discriminate against middle-income earners.

Republicans also tried to mobilize opposition through radio and TV addresses by Republican members of the Ways and Means Committee. Republicans stressed the theme of expenditure reduction during floor debate. The Republican motion to recommit would have made the tax cut

\[251\text{Ibid.}
\[252\text{Ibid.}

For example, Representative Byrnes said on September 18 that the Administration is "taking an unprecedented gamble with the entire economic system of the United States." Congressional Quarterly Almanac, 1963, p. 486. On September 21, Representative Thomas B. Curtis accused the Administration of trying a "novel fiscal and economic theory of planned deficit financing" which could lead to inflation. Ibid.

Representative Byrnes said that the Ways and Means Committee, its chairman, and the President "pay lip service to the need for holding spending down, but then they run off in all directions to avoid accomplishing it." Ibid., p. 487.
contingent on the President submitting a budget in January, 1964, showing fiscal 1964 expenditures below $97 billion and fiscal 1965 below $98 billion. The House defeated the recommittal motion 226-199, with only 26 Democrats defecting, but according to Stein, the sentiment behind it had wide support.  

The bill passed the House 271-155, as 48 Republicans deserted the party leadership to support it.  

Mobilization of support in the Senate

In an attempt to expedite Senate action in 1963, Dillon visited Senate Finance Committee Chairman Harry Byrd, immediately prior to the House vote, but with no effect.  

The majority report on the bill, issued in January, 1964, repeated many of the themes made previously by the bill's proponents--e.g., that the bill would stimulate investment, increase consumer spending, reduce unemployment, increase economic growth and increase tax revenue in the long run.  

The bill's floor manager, Senator Russell Long, emphasized the President's promise to control expenditures, 

255Stein, op. cit., pp. 448-449.  
256Sundquist, op. cit., p. 51.  
257Stein, op. cit., p. 459.  
258Congressional Quarterly Almanac, 1964, p. 531.
but also clearly explained the new economics.\textsuperscript{259} Desiring speedy passage, the Johnson Administration opposed floor amendments that would widen the few major differences between the House version and the Senate Finance Committee version. Due to accurate head-counts and pressure on Democratic Senators, the leadership managed to defeat most of the major amendments offered, but only by close margins.\textsuperscript{260} The Senate vote on final passage was 77-21 and two of those opposed favored unbalancing the budget by increasing expenditures rather than reducing taxes.\textsuperscript{261}

\textbf{Mobilization of opposition in the Senate}

Senator Byrd, the Chairman of the Senate Finance Committee, was apparently the primary participant who sought to mobilize opposition to the tax cut in the Senate. He pointed out to Dillon, on the eve of the House vote, the obstacles to quick Senate action: at least ten days of briefings by staff experts; four weeks of testimony from at least sixty witnesses; the submission of Senator Albert Gore's amendments (totally at least twenty); and a civil

\textsuperscript{259}Sundquist, \textit{op. cit.}, p. 52.

\textsuperscript{260}Congressional Quarterly Almanac, 1964, p. 532.

\textsuperscript{261}Sundquist points out that the Senate vote was almost exactly the opposite of that occurring when the Senate last voted on tax reduction as an instrument of fiscal policy, in June, 1958. Sundquist, \textit{op. cit.}, p. 52.
rights debate. Rejecting Dillon's request for speedy action, Byrd instead proposed a deal: he would guarantee passage of the tax cut with a retroactive provision to January 1, 1964, if Dillon would wait until January and if the President would submit a reduced budget. But Dillon rejected the offer, saying that a delay might bring on a recession and that withholding taxes would not be feasible on a retroactive basis. Senator Byrd also resisted businessmen, who expressed a desire for expenditure reduction, but who actually had a greater desire for a quickie tax reduction.262

In fact, the Senate did not finally pass the bill until 1964, as the Senate Finance Committee spent the first two weeks following House passage with staff experts studying the bill, and then heard a long list of witnesses. Byrd, of course, was in no hurry until he saw the outlines of the fiscal 1965 budget at the end of 1963.263


263Congressional Quarterly Almanac, 1964, p. 526. Senator Albert Gore presented minority views in which he opposed the bill on the grounds it was not true reform, created more inequity, provided tax reduction for the very rich, increased the deficit in prosperous times, cut revenues needed to pay for "pressing public problems." See ibid., p. 531.
Modification

The modification function was performed jointly by the Treasury Department and the Ways and Means Committee and by the Senate Finance Committee. Attempts at modification were made in the House by the Republican recommittal motion and on the Senate floor. Many of these attempts were only narrowly defeated. And many of the successful and unsuccessful attempts at modification were directed at the reform provisions rather than the reduction provisions.

Ways and Means Committee modification of the President's proposals

After the completion of hearings at the end of March, 1963, the Ways and Means Committee discussed the proposals for six weeks in executive session, with Treasury officials often taking part. From May 20 to June 19, the Committee made tentative decisions on tax reforms, but deferred action on corporate and individual tax rates until late summer when the costs of reforms would be known. The Committee resumed action on July 31, and began final voting on reform provisions, which continued until September 10, at which time the Committee approved the bill and ordered it reported.264

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On August 12, 1963, Treasury Secretary Dillon presented to the Ways and Means Committee a significantly revised tax program--one based on his talks with Wilbur Mills and on what Mills thought his committee would pass. The new proposal eliminated almost all of the reform package. It cut taxes by $11.6 billion, with corporate rates eventually reduced to 48 per cent and individual rates to an upper limit of 70 per cent. As finally adopted by the Committee and revised in the Senate, the net tax reduction proposal was for $11.6 billion over two years. Most of the reforms abandoned in the Dillon version affected upper bracket taxpayers. To compensate for the revenue that would have resulted from the plugged loopholes, the new low tax rate of 14 per cent was to apply only to the first $500 of income, instead of the first $1000 as originally proposed.265

The Committee twice defeated (first by 11-12 and later by 10-15) a motion by John W. Byrnes, the ranking Republican in the Ways and Means Committee, to make the

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265Rowen, op. cit., pp. 245-246. Rowen contends that the new Dillon version provided the upper bracket taxpayer, whose special privileges were still intact, with a slightly better reduction than President Kennedy had first proposed and the lower bracket taxpayers with a slightly less generous break than originally promised. He writes that the tax bill enacted "almost exactly fitted the demands of the Ford-Saunders businessmen's committee: a whale of a big tax cut, and minimum of reforms." Ibid., p. 246.
second stage of tax reduction, scheduled for January 1, 1965, effective only if: (1) the President's estimated fiscal 1965 budget was no higher than $98 billion; and (2) the net federal debt, as of June 30, 1963, did not exceed $303 billion. Instead, the Ways and Means Committee approved a Mills substitute "sense of Congress" resolution. 266

The Committee also rejected several of the President's major tax reform proposals, including the largest revenue raising item in the President's package, the proposal to limit the total itemized deductions to those in excess of five per cent of the taxpayer's income, which was expected to bring in approximately $2.3 billion annually. Of all the reforms, this proposal created the greatest opposition among taxpayers and was never really considered by the Committee. 267

The Ways and Means Committee voted 15-10 along party lines to instruct Mills to introduce the bill in the House and later voted 17-8 formally to order the bill reported with a recommendation for passage. On the latter vote, Republicans Howard H. Baker of Tennessee and Victor A. Knox

266 On the first vote one Democrat, W. Pat Jennings of Virginia, joined all the committee Republicans to support the bill. Congressional Quarterly Almanac, 1963, p. 483.

267 For a summary of the major reforms proposed by Kennedy that were rejected by the Ways and Means Committee, see ibid., p. 484.
of Michigan voted with the fifteen Democrats to report the bill.\textsuperscript{268}

\textbf{Byrnes Recommital Motion offered on floor}

Byrnes again tried to modify the bill by offering a recommittal motion instructing the Ways and Means Committee to amend the bill to prevent the tax reductions unless the President specified that spending in the administrative budget was not expected to exceed $97 billion for fiscal 1964 and $98 billion for fiscal 1965. Floor debate on September 24 and 25 focused on the recommittal resolution with little attention to rate reductions and virtually no attention to the reform provisions. In response, the Democrats argued that spending is not so easily stopped and that, in any case, Congress is basically responsible, since it appropriated the money.\textsuperscript{269}

The House rejected Byrnes' motion on September 25, 1963, by a vote of 199 (173 Republicans, 26 Democrats) in favor to 226 (1 Republican, 225 Democrats) opposed. Only two non-Southern Democrats--Clarence Cannon of Missouri and Walter S. Barring of Nevada--supported recommittal. One hundred forty-five Northern and 80 Southern Democrats voted against recommittal.\textsuperscript{270}

\begin{itemize}
\item \textsuperscript{268}\textit{Ibid.}, p. 483.
\item \textsuperscript{269}\textit{Ibid.}, p. 486.
\item \textsuperscript{270}\textit{Ibid.}, pp. 486, 470.
\end{itemize}
Modification by the Senate Finance Committee

Senate Finance Committee Chairman Harry Byrd cooperated in moving the bill through committee because of President Johnson's action in reducing spending in the fiscal 1965 administrative budget below that expected in the fiscal 1964 budget. The Finance Committee made some important changes in the bill. First, on a 12 (10 Democrats, 2 Republicans) to 5 (1 Democrat, 4 Republicans) vote, the Committee deleted a House provision to reduce the capital gains tax on assets held more than two years. The Administration had recommended deletion because of the House's failure to provide for taxing the currently untaxed profits on inherited property. A second important change, taken upon the Administration's request, was to provide for the immediate reduction in the withholding rate from the present bottom level of eighteen per cent to fourteen per cent. The House version had provided a reduction to fifteen per cent in 1964 and to fourteen per cent in 1965. The Treasury had concluded that, since withholding would


272 Voting to delete the provision were Democrats Long, Smathers, Anderson, Douglas, Gore, Talmadge, McCarthy, Hartke, Fulbright, and Ribicoff, and Republicans Dirksen and Morton. Opposed were Democrat Byrd and Republicans Williams, Carlson, Bennett and Curtis. Ibid., p. 530. The deleted provision would have increased revenue in 1964, but decreased it in succeeding years. Ibid., pp. 527, 530.
continue at the eighteen per cent level until the legisla-
tion was enacted, and not drop to fifteen per cent on Jan-
uary 1, 1964, which had been the assumption on which the
House proceeded, a reduction to fourteen per cent in 1964
was needed in order to prevent the withholding of too much
which, because of the retroactive provision, would have to
be refunded in 1965.273 A third change, which represented
a defeat for the Administration, was the deletion of the
House proposal that disallowed federal income tax deduc-
tions for gasoline taxes and automobile license and regis-
tration fees. The Senate Finance Committee also unani-
mously deleted the sense of Congress economy resolution
contained in the House version, but this provision was
reinstated during the Conference.274

Attempts made in the committee to repeal certain
excise taxes ultimately failed. On January 20, 1964, the

273Ibid., pp. 527, 531. For each month that the
withholding rate was set at 14 per cent, $800 million more
would remain in taxpayers' hands, as compared to an addi-
tional $600 million at the 15 per cent level.

274Ibid., p. 527. The committee also adopted but
later dropped or diluted certain amendments. For example,
on December 13, 1963, the committee adopted Senator
Russell Long's amendment to provide an alternate schedule
of tax rates for the very wealthy. The purpose was to test
the reaction of a group of taxpayers to a lower tax rate
with no deduction. But on January 23, 1964, the committee
dropped this amendment. Ibid. Another amendment adopted
and later dropped permitted taxpayers to deduct contribu-
tions to candidates for federal, state, and local offices.
Ibid., p. 526.
committee accepted Fulbright's amendment to repeal the ten per cent tax on theater tickets and on January 23, Dirksen's suggestion to repeal excise tax on luggage, handbags, furs, and other luxury items. But all of these excises were re-instated on January 23, by a 9-8 vote, after President Johnson applied strong pressure on committee members.\footnote{ibid., p. 530. For a comparison of the reductions contained in the House and Senate Finance Committee versions, see ibid.}

On January 23, 1964, the Finance Committee approved the bill as amended by a vote of 12 (9 Democrats, 3 Republicans) to 5 (2 Democrats and 3 Republicans).\footnote{Voting in favor of the tax bill were Democrats Long, Smathers, Anderson, Douglas, Talmadge, McCarthy, Hartke, Fulbright, and Ribicoff, and Republicans Dirksen, Carlson, and Morton. Opposed were Democrats Byrd and Gore and Republicans Williams, Bennett, and Curtis. ibid., p. 531.} Although similar to the House version, the bill as reported increased the net revenue loss by $395 million.\footnote{Ibid.}

**Modification on the Senate floor**

The Administration opposed floor amendments that would widen the few major differences between the House version and the Senate Finance Committee version. Administration forces were able to defeat all of the most controversial amendments, although in many cases by only narrow margins. The only major amendment accepted on the
Senate floor increased the taxes on foreign earnings of Americans living abroad. On February 7, 1964, Senator Russell Long, the bill's floor leader, accepted a number of amendments, which were adopted by voice vote and with minimal explanation, without any indication of how hard Senate conferees would fight for them in the Conference. Many of these were, in fact, dropped in the Conference.278

The Senate supported the Administration by defeating, if only by narrow margins, two amendments providing tax relief for college expenses. Senator Abraham Ribicoff proposed an amendment to provide a tax credit (limited to a $325 maximum) based on a sliding scale of the taxpayer's gross income, on the first $1500 of expenses for tuition, fees, books, and supplies. Treasury officials predicted a revenue loss from this amendment of $700 million the first year and 1.3 billion by 1970. Opponents of the amendments, led by Senators Long and Wayne Morse, argued that the amendment would result in widespread tuition increases. The Senate rejected the Ribicoff amendment on February 4 by a vote of 45-48, with 19 Democrats and 26 Republicans in favor and 43 Democrats and 5 Republicans opposed to the

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278Ibid., p. 532. Upon the request of Senator Paul Douglas, who wanted to strengthen the bargaining position of Senate conferees on this provision, the Senate itself voted to delete the House capital gains tax reduction. Ibid.
amendment. Republican Winston Prouty's amendment providing a tax deduction for educational expenses for college students, but not their parents, was defeated by an even narrower margin of 47 to 47. Prouty estimated that his amendment, which limited the maximum deduction to $1200 for an undergraduate and $1500 for a graduate student, would cost the Treasury annually approximately $55 million. Fifteen Democrats and thirty-two Republicans supported the amendment, while forty-seven Democrats (and no Republicans) opposed.

The Administration's position was also sustained when the Senate rejected by 44-47 (13 Democrats and 31 Republicans in favor and 47 Democrats against) a Republican attempt to retain the existing four per cent dividend credit provision, which the House version eliminated in two

\[279\text{Ibid. While many officials of private schools were believed to support the Ribicoff amendment, officials of public schools were opposed. For example, the Association of State Universities and Land Grant Colleges was strongly opposed. Ibid., p. 532. The outcome was so close that three co-sponsors of the amendment--Senators Hubert Humphrey of Minnesota, Robert C. Byrd of West Virginia, and Frank E. Moss of Utah--even voted against it. Ibid., p. 533.}\]

\[280\text{Ibid., p. 533. Five Republicans who opposed Ribicoff's amendment (Aiken, Javits, Miller, Saltonstall, and Smith) supported Prouty's but their changes were offset by Democratic switches in the other direction. Ibid.}\]
two per cent steps in 1964 and 1965.281 On February 5 and 6, the Senate also defeated several Republican attempts to reduce or eliminate various federal excise taxes as well as a liberal attempt to delete House provisions that they believed unjustly benefited oil and pipeline companies at the expense of consumers. Finally, the Senate defeated two of Senator Gore's amendments to increase the existing $600 personal exemption.282

As finally passed, the Senate version would have reduced tax liabilities by $11,865,000,000 when fully effective at the start of 1965, $280 million more than the Senate Finance Committee version. The House version would have reduced calendar 1965 tax liabilities by $11,190,000,000.283

**Representation**

The function of representation was performed by the President, the Treasury Department, and various interest

281 While eliminating the dividend credit, the House version also doubled the amount to be excluded, to $100 for a single individual and $200 for a couple. The Republican Senate amendment, sponsored by Senators Morton and Dirksen, doubled the exclusion (as in the House bill) but also retained the 4 per cent credit while limiting the amount to be claimed to $300, which would have applied to $7,300 of dividend income. Ibid.

282 Ibid., p. 534. For a summary of the amendments accepted and rejected by the Senate, see ibid., pp. 535-536.

283 Ibid., p. 325.
groups. Given the constituency of a Democratic President, the President may be regarded as representing the views of workers, the unemployed, and the poor in presenting a tax cut to encourage economic growth. At the same time, the benefits of the tax plan and economic growth for business should also be recognized. Within the Administration, Treasury officials tended to represent the banking community, particularly with respect to the implications of a tax cut on the soundness of the dollar and the international balance of payments problem.

Business and labor groups also actively represented the perceived views of their constituents in the policy process. Around 1960, the U.S. Chamber of Commerce altered its traditional position that a budget surplus was needed before taxes could be cut. Sundquist suggests that this change was due to the series of post-war recessions and the resulting economic debate and notes that Chamber President Ladd Plumby was a strong supporter of tax reduction in 1962 and 1963. However, the Chamber did not support all of the President's tax proposals, but preferred, instead, a tax cut which gave greater relief to corporations and to the middle and upper income groups and was willing to sacrifice reforms for an immediate tax reduction. Joel Barlow, testifying for the Chamber before the Ways and Means

284Sundquist, op. cit., p. 47.
Committee on March 18, 1963, urged an $8.6 billion tax cut effective in a single year beginning in 1963 or, at the most, in two years. He criticized the Administration's proposed 14-65 per cent tax rate schedule on the grounds that it would shift the tax burden to investors and professional men of the middle and upper brackets. The Chamber favored a tax rate range of 15-65 per cent, with the existing first bracket split in half, thereby providing about $5 billion less in tax relief. Barlow supported the reduction in the corporate tax rate from 52 per cent to 47 per cent, but said it should be made effective in 1963. He repeated the Chamber's position that a tax cut was needed immediately even if it produced a deficit and claimed that the entire business community basically shared this view. While the Chamber did not oppose all structural reforms, it opposed those that would delay passage.  

Frazer B. Wilde, speaking for the CED on March 13, 1963, before the House Ways and Means Committee, said that his organization favored a two part $11 billion cut, a $6 billion reduction in 1963 and another $5 billion reduction as soon as Congress could be reasonably sure that fiscal 1964 spending would not exceed that of 1963. CED believed tax reduction should not depend on tax reforms because the nation's economy required prompt tax reduction to stimulate

private investment.\textsuperscript{286}

Charles E. Walker of the American Banking Association who testified before the Ways and Means Committee on March 18, 1963, strongly opposed the President's tax program in the absence of tight restrictions on government spending. He proposed that the tax bill include a provision limiting fiscal 1964 spending to the fiscal 1963 level. With this restriction and with some other adjustments, he believed the Administration's three-step cut should stimulate incentive and investment. He further recommended that personal income tax be limited to fifty per cent, arguing that this top rate would cost only $175 million or two per cent more than the President's proposed top rate of 65 per cent, and also urged that the corporate tax be lowered to forty-two per cent or at least forty-five per cent.\textsuperscript{287}

Henry Ford II testified on February 25, 1963, that tax cuts were needed to stimulate the economy, but that government spending should be restricted to limit the debt.\textsuperscript{288}

From March 25-27, 1963, the oil and gas industry presented a group of witnesses, which included five governors of oil producing states, who strongly opposed the

\textsuperscript{286}\textit{Ibid.}, p. 481. \textsuperscript{287}\textit{Ibid.}, p. 482. \textsuperscript{288}\textit{Ibid.}, p. 479.
President's recommendations for increased taxation of the mineral industries.\textsuperscript{289} In addition, several trade associations testified with regard to those tax provisions affecting their memberships.\textsuperscript{290} On March 19, 1963, the spokesman for the American Farm Bureau Federation opposed the general tax cut until government spending was reduced. The Bureau believed that tax reduction should focus on increasing capital investment, i.e., favor middle and upper income persons.\textsuperscript{291}

In his March 13, 1963, testimony before the House Ways and Means Committee, AFL-CIO President George Meany emphasized a persistent theme of labor, i.e., that greater reduction should be given to low income groups and less to corporations and upper income groups. He proposed an "immediate and substantial" tax cut for low income persons followed later by reduction for upper income individuals and corporations combined with tax reforms that would bring in an amount of revenue approximately equal to that lost by the later reductions. Because of the tax relief already obtained by corporations in 1962, he opposed lowering the corporate tax rate below 49 per cent. His opposition to

\textsuperscript{289}Ibid., pp. 482-483.

\textsuperscript{290}For an account of this testimony, see ibid., pp. 478-482.

\textsuperscript{291}Ibid., p. 482.
the proposal to limit itemized deductions to those in excess of five per cent of gross income placed labor with about every other business and nonbusiness group in opposition to the President's major revenue raising reform. Meany also opposed the President's proposal to end the exclusion from taxable income of the first $100 per week of sick pay, arguing this would penalize too many workers while the rich continued to benefit from many unclosed loopholes. 292

Prescription

The President and Congress jointly performed the prescription function. The tax bill originally passed the House on September 25, 1963, by a vote of 271-155 and the Senate on February 7, 1964, by a vote of 77 to 21. The Conference version was passed overwhelmingly by both houses (326-83 in the House and 74-19 in the Senate) and signed on February 26, 1964, by President Johnson. 293

The Conference agreed on a final version that reduced tax liabilities by $7.7 billion in 1964 and $11.5 billion in 1965, when the bill became fully effective. Perhaps the major decision taken by the Conference was to eliminate the House provision lowering the tax rate on capital gains, while still retaining the indefinite capital gains

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292 Ibid., p. 481.
293 Congressional Quarterly Almanac, 1964, p. 518.
loss carry-over provision. The deletion of this provision prevented an estimated long-run revenue loss to the Treasury of $230 million per year. The Conference also accepted the Senate provision reducing withholding from eighteen per cent to fourteen per cent in 1964 rather than to only fifteen per cent in 1964 and fourteen per cent in 1965. 294

The bill signed by the President was essentially the same as the version passed by the House in September, 1963. 295 Kennedy originally proposed a net reduction of $10.3 billion to begin on July 1, 1963, and to be spread over the following two fiscal years. The original proposals were for a cut in tax liabilities of $13.6 billion ($11 billion for individuals, $2.6 billion for corporations) and for tax reforms to increase tax liabilities by $3.3 billion. The final bill contained few significant revenue raising reforms and provided for a net reduction in tax liabilities of $11.5 billion annually, with an $11.7 billion decrease due to the lower rate, but only a $180 million increase from reform provisions and capital gains changes. 296

Conclusions

In this case as well as the previous cases studied,

294Ibid., p. 537. 295Ibid., p. 518.
296Ibid., p. 525.
the President performed functions relating to communications and to his legal and/or constitutional powers. He was a key participant in performing the functions of definition of the issue, communications, mobilization, and prescription. His authority, prestige, bargaining advantages, and publicity advantage help explain his performance of the first three mentioned functions. But his performance of the initiation and formulation functions is perhaps a bit more surprising. As a Presidential candidate in 1960, Kennedy raised the problem of economic growth. His rather active role in formulation, particularly in the final stages, can perhaps be explained by the need for a President, personally, to reconcile differences within the Administration on proposals that constitute a break with tradition.

The Council of Economic Advisers and particularly its Chairman, Walter Heller, performed several important functions. Heller and the Council were the first to both define the issue as chronically inadequate economic growth and to advocate a major tax cut as an appropriate response. Heller sought to convince other participants, particularly the President and Treasury Secretary Dillon, of this definition. Ironically, Kennedy, who had first raised the issue, took a long time to accept this definition of the problem and the response. Heller was the original and strongest advocate of such a definition within the
Administration. As Chairman of the Cabinet Committee on Economic Growth, he was also a major participant in formulating the tax proposals. Finally, Heller played an important role in performing the communications and mobilization functions.

Treasury Secretary Dillon took part in the performance of the functions of definition of the issue, formulating, mobilization, modification, and representation. In defining the issue and formulating the response, he generally took a position different from that of Heller. Initially at least, Dillon considered balance of payments and considerations of dollar stability to be quite relevant to the definition of the issue and to any formulation of economic policy. He was a strong proponent of tax reforms and the tax reform provisions of the Administration's tax proposals constituted his major contribution. Yet, it was Dillon who, with the Ways and Means Committee, sacrificed the tax reforms in order to obtain tax reduction. His performance of the mobilization function was directed mainly towards the business community. Throughout much of the policy process, with the exception of his espousal of tax reform, Dillon may be regarded as representing the views of the traditional constituency of the Treasury, the banking community and also of business, in general.

Congressional participants also performed several functions. The Ways and Means Committee, along with the
Treasury Department, performed the modification function when it eliminated most of the reforms in the tax bill in August, 1963. The Democrats on Ways and Means, and particularly Chairman Wilbur Mills, played an important role in mobilizing support, while Republican members, in committee and on the floor, sought to mobilize opposition. Successful and unsuccessful attempts at modification occurred in the Senate Finance Committee and on the floor. Congress and the President together jointly performed the modification function.

Three major participants--the President, Heller and Dillon--performed the function of definition of the issue. But at the beginning of the Administration, of the three, only Heller argued on behalf of measures to stimulate economic growth. The issue was first defined as a traditional recession; not until the summer of 1962 was it defined to include the restrictive impact of a burdensome tax structure on economic growth. But the President was apparently unwilling to rest the case for tax reduction on such a narrow definition, and in January, 1963, chose also to picture the tax cut as a fiscally prudent course of action and a guard against a possible, if unlikely, recession. Since the focus of the definition was on the problem of economic growth and the tax cut, the sacrifice of the reforms is perhaps not unexpected. As the time for Congressional action neared, those aspects of the definition that
portrayed the tax cut as a fiscally prudent measure or as a precaution against possible recession were stressed. An attempt was made to interpret this innovative policy as an extension of established fiscal policy.

Three major sets of participants—the Treasury, the Cabinet Committee on Economic Growth, and an ad hoc grouping of the President's economic and political advisers—performed the formulation function. The Treasury contributed the reforms and the Cabinet Committee contributed the reduction to the final set of Presidential recommendations. The President and his ad hoc group of advisers finally decided the total size of the cut, the spread over a period of years, and the reduction in the corporate rate. The figure of $10 billion for the total reduction was the sum arrived at by the CEA's calculations as well as by the outside interest groups. Participants formulated the proposals knowing that interest groups agreed on the sum, but not on how the benefits should be distributed. Yet, according to Stein, both labor and business groups accepted that they would have to recognize the other side's position to some extent.

One technique of mobilization that the Administration employed was to formulate tax proposals that appealed to a wide variety of individuals and groups—tax reforms for Mills and the Treasury, the size of the total cut for Heller, reductions in all individual brackets and in
corporate rates and the spread out of the tax cut over a period of years for the conservative groups. The Administration tried to build a wide base of support and aimed specifically at Chairman Mills, business, and the Southern Democrats. The President also was willing to sacrifice the reforms for reduction. In trying to build support in the House, Mills argued that the tax cut was an alternative to increased government spending. President Johnson further mobilized support in the Senate by agreeing to hold down spending.

The process described in this chapter appears in many ways to resemble politics in Lowi's redistributive arena. While the actual impact of the final tax reduction was not very redistributive, Lowi places issues in this arena on the basis of expectations about the impact. At the outset, some participants tried to define the issue in somewhat redistributive terms. For example, labor organizations favored reduction predominantly in the lower income brackets and, at one time, wanted to tie a second stage of reductions to tax reforms closing loopholes that benefited the rich. On the other hand, business groups wanted the reduction mainly in the upper brackets. Thus, certain differences on this issue approximated class differences.

Another feature of the process that resembles Lowi's redistributive arena is that the major decisions were made in the executive bureaucracy with some involvement of the
interest groups speaking for the two classes. Perhaps the major decision made in Congress was to eliminate the tax reforms, thereby removing some of the redistributive sting. Agreement on the size, if not the allocation, of the reduction had been reached among outside interest groups. In this particular case, the Treasury Department insofar as it was the exponent of loophole closing reforms, did not speak for the upper classes. Finally, this process provides examples of conflict reduction as Lowi suggests exist in the redistributive arena. The participants formulated the bill so as to provide some provisions for the various interested groups. However, unlike the distributive arena, the resources available cannot be considered as unlimited.

Of course, for Administration participants, the key element in the definition of the issue was not redistribution. Within the Administration the tax reduction was justified on grounds that it would stimulate a stagnant economy. So, it fits into Lowi's category only with some stretching.

Some of Lindblom's concepts also seem applicable to this process. First, the policy finally adopted represented only a marginal or incremental change from existing policy. Although the notion of a tax cut to stimulate the economy represented a break with tradition, the reforms were sacrificed, the reduction was to be implemented in two stages, and expenditures were to be held down. Moreover,
the tax cut was related to past fiscal policy. A tax cut was selected over increased spending, not because comprehensive analysis revealed a tax cut to be superior to increased spending, but because a tax cut was politically more feasible. Second, this process also provides an example of, as Lindblom might say, participants agreeing that a policy was good, without agreeing what it was good for. Some participants favored the tax cut because of its stimulating effect on the economy. Others viewed the tax cut as the way to a balanced budget in the long run or a guard against possible recession.

Lindblom's concept of partisan analysis also seems useful in describing certain relationships among various participants. For example, Heller used this technique to persuade others to support a particular definition of the issue and the appropriateness of the tax cut as a solution. In addition, the varied aspects of the Administration's definition of the issue (such as the tax cut as a fiscally prudent course of action or as a guard against possible recession) may be regarded as examples of partisan analysis, attempts to show that the tax cuts served the values of other participants. Mills used partisan analysis when he tried to show that the tax cut was a way to avoid increased government spending.
CHAPTER V
THE PRESIDENT AND THE POVERTY PROGRAM

The Economic Opportunity Act of 1964 is somewhat different from the policies examined so far, for it was designed to deal with the continuing problem of poverty, i.e., with those individuals who were unaffected by the broader measures designed to stimulate aggregate demand. In one sense, this act may be seen as an outgrowth of earlier policies designed to cope with structural unemployment. The stated purpose of the Economic Opportunity Act of 1964, as enacted into law, was the elimination of poverty by providing everyone with an opportunity for education, training, work, and the chance to lead a decent and dignified life.\footnote{Congressional Quarterly Almanac, 1964, vol. XX (Washington, D.C.: Congressional Quarterly, Inc., 1964), 210.} The bill authorized several programs, such as the Job Corps, work training programs to employ young people locally, community action programs, programs to aid the rural poor, VISTA, aid to small businessmen, and a training program for heads of families receiving public assistance, to attack the causes of poverty.\footnote{Ibid., p. 208.}
further provided that the attack on poverty should be co-
ordinated by a Director of the Office of Economic Oppor-
tunity, a new agency created in the Executive Office for
this purpose. Finally, the bill authorized $947.5 million
for the first year of the poverty program, only $15 million
less than the Administration's draft request. 3

Initiation

The "Poverty" literature

The function of initiation, i.e., raising poverty as
an issue for political consideration, was performed during
the 1950's and '60's by some public officials, but perhaps
most dramatically by certain writers. An illustration of
the role played by public officials is the establishment in
1949 by the Joint Committee on the Economic Report of a
Subcommittee on Low-Income Families, which began to demon-
strate statistically the persistence of poverty. 4 Books

3 Ibid., p. 208.

4 Arthur M. Schlesinger, Jr., A Thousand Days (Boston:
points to two old New Dealers, Averell Harriman and Isador
Lubin, who recognized the significance of this work and who
concerned themselves with poverty when Harriman was Gover-
nor of New York and Lubin his Labor Commissioner. Accord-
ing to Schlesinger, Governor Harriman's January 31, 1956,
Address to the Legislature "contained the basic elements of
the war against poverty," defining poverty as different
from unemployment and distressed areas, explaining its com-
position and magnitude and emphasizing remedial and voca-
tional rehabilitation as the means of an individual's es-
caping poverty. Ibid., pp. 1009-1010.
that seemed clearly to have contributed to raising poverty as an issue were Harry Caudill, Night Comes to the Cumberlands, John Kenneth Galbraith, The Affluent Society, Michael Harrington, The Other America, and Leon Keyserling, Poverty and Deprivation in the United States. The evidence is clear that President Kennedy read some of this literature. For example, in December of 1962, he requested copies of the Harrington and Keyserling books from CEA Chairman Walter Heller. Schlesinger believes that Harrington's book "helped crystallize his [Kennedy's] determination in 1963 to accompany the tax cut by a poverty

5Harry Caudill, Night Comes to the Cumberlands (Boston: Little Brown, 1962).


10Bibby and Davidson, op. cit., p. 224; and Sundquist, op. cit., p. 113.
program.\textsuperscript{11} Other influences working on the President included Galbraith's continuing support for the public sector, the work of Senator Joseph S. Clark's Subcommittee on Employment and Manpower, and the CEA's modification of its earlier emphasis on aggregate measures.\textsuperscript{12}

President Kennedy seems to have decided on a poverty program by the spring of 1963. During the year end economic review in December, 1962, Kennedy told Heller that he wanted to go beyond what had already been accomplished and specifically asked for the "facts and figures" on the "poverty problem in the United States."\textsuperscript{13} Schlesinger reports that by the end of the spring of 1963, the President had decided that a broad war against poverty was required as the structural counterpart to tax reduction.\textsuperscript{14}

The President and the Council of Economic Advisers advance the idea of a poverty program

Once the President and other major policy makers had accepted these authors' identification of the problem of poverty, Heller and his staff provided the economic expertise needed in order to advance poverty further as a subject

\textsuperscript{11}Schlesinger, \textit{op. cit.}, p. 1010.
\textsuperscript{12}Ibid., pp. 1010-1011.
\textsuperscript{13}Sundquist, \textit{op. cit.}, p. 112.
\textsuperscript{14}Schlesinger, \textit{op. cit.}, p. 1009.
for political consideration within the Administration. Heller asked a member of his staff, Robert J. Lampman, to bring up to date research he had done on poverty in 1959 for the Joint Economic Committee. Using Lampman's data, Heller sent a memo to Kennedy on May 1, 1963, that showed a decline in the rate at which people were moving out of poverty, defined as an income of $3,000 per year for a family of four and of $1,500 per year for a single individual. He pointed out that only one per cent of the population had moved out of poverty since 1957 and that about twenty per cent of the American population was currently living in poverty. In early June, he circulated a memo within the Council and staff that asked, "What lines of action might make up a practical Kennedy anti-poverty program in 1964?"

Heller and the Council made attempts during the summer to broaden the discussion of poverty as an issue for political consideration. In a speech to the Communication Workers of America in June, Heller launched the idea of an

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15 Lampman's 1959 report was The Low Income Population and Economic Growth, prepared for the Joint Economic Committee, 80th Congress, 1st. Session.


anti-poverty program as a trial balloon, but was disappointed in the response. His background discussions on the subject with reporters produced only a few stories. In mid-summer, the CEA arranged a meeting with high level policy makers to discuss the idea of a poverty program. The participants' reactions ranged from cautious approval to a lack of interest. Several pointed to the political liabilities of such a program, e.g., that it constituted an admission that Kennedy could not get the country moving again.\(^\text{18}\) An informal, interagency staff group was established under Lampman in late summer, 1963, to continue the economic and statistical analysis of the poverty program. This group was later headed by William M. Capron of the Council's staff when Lampman left government service. And as early as August, 1963, Lampman had a draft of the proposed chapter on poverty in the 1964 Economic Report of the President.\(^\text{19}\)

The President also continued to encourage an interest in this problem within his Administration. He devoted a large part of a June cabinet meeting to discussing the problems of Negro unemployment. He also initiated a series of staff studies on poverty, which were done in the summer of 1963 by the CEA, Budget Bureau, and the Departments of

\(^{18}\)Bibby and Davidson, op. cit., p. 225.

\(^{19}\)Sundquist, op. cit., p. 136.
Labor and Health, Education and Welfare. By November of 1963, Kennedy had made clear to several members of his Administration that he intended to make an assault on the causes of poverty a key element in his 1964 legislative program, along with Heller's proposed tax cut.

Definition of the Issue

"Poverty" in the context of earlier public policies

Past policies influenced participants' perceptions of poverty as a political issue. James Sundquist has suggested that four areas of policy--mental health, urban renewal, public welfare, and manpower retraining--influenced the thinking of people in and out of government on the problem of poverty. He suggests that by 1963, thinking in these four areas of poverty converged, particularly within the Ford Foundation and the President's Committee on Juvenile Delinquency.

Mental health and the "sick community"

The conception of juvenile delinquency as a mental health problem (as opposed to simply a crime problem) and of the delinquent as a conformist to his community was one

20Donovan, op. cit., p. 23.

21See ibid.; and Schlesinger, op. cit., p. 1012.
line of thinking that contributed to the definition of poverty as a political issue and that suggested the general nature of a governmental response to this problem. This mode of thinking about juvenile delinquency led to the concept of community organization to attack juvenile delinquency, a concept that became an important part of the war on poverty.

President Eisenhower first expressed the federal government's concern for juvenile delinquency when, in his January 31, 1955, health message, he proposed a $5 million grant program to states for an attack on juvenile delinquency. His proposal was not enacted, and in 1960 the President indicated his willingness to sign a bill limited to research and development. A compromise version of this bill passed the Senate but died in the House Rules Committee.22

In May, 1961, President Kennedy sent a bill patterned after Eisenhower's 1960 version to Congress and established the President's Committee on Juvenile Delinquency and Youth Crime, headed by his brother, Attorney-General

22Sundquist, op. cit., pp. 115-117. The change in the perception of juvenile delinquency as a mental health problem and no longer a criminal one is perhaps demonstrated by the fact that the two bills introduced on the subject in 1955 were referred to the Senate Labor and Public Welfare Committee and not the Judiciary Committee, despite the fact that the groundwork for such a bill had been laid by hearings held by Senator Estes Kefauver's Judiciary Subcommittee.
Robert Kennedy. Unlike Eisenhower's 1955 proposals, Kennedy's bill, which passed in August, 1961, did not assume that existing state and local programs were wisely conceived, but stressed instead federal assistance for research and development projects involving community organizations.

The President's Committee on Juvenile Delinquency and Youth Crime encouraged the development of community organizations to deal with juvenile delinquency. Richard Cloward and Lloyd Ohlin of Columbia University's School of Social Work were apparently responsible for advancing the concept of community organization as a method of coping with juvenile delinquency. In their book, Delinquency and Opportunity, they contended that delinquency was a community, not an individual pathology, and that the target

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23 Ibid., pp. 116, 118. In addition to the Attorney-General, who was chairman, the President's Committee on Juvenile Delinquency was composed of the Secretary of Labor and the Secretary of Health, Education and Welfare. Each of the members appointed a special assistant as an alternate: David Hackett for the Attorney-General; Lloyd Ohlin for Health, Education and Welfare; and Salinger for Labor. Peter Marris and Martin Rein, Dilemmas of Social Reform: Poverty and Community Action in the United States (London: Routledge and Kegan Paul, 1967), p. 22.

24 Sundquist, op. cit., p. 118.

25 Ibid., p. 119.

for action should be the social setting that gives rise to the delinquency, not the delinquent individual or group. 27

David Hackett, an old friend and campaign associate of the Kennedys, who was charged with developing new federal initiatives in the field of juvenile delinquency and assigned to the Justice Department, appears to have been the link between Cloward and Ohlin's thinking, on the one hand, and the Kennedy Administration's efforts against juvenile delinquency, on the other hand. Ford Foundation officials informed him of the philosophy behind the Mobilization for Youth organization. 28 Hackett organized the March 16, 1961, Conference of experts on juvenile delinquency and selected Lloyd Ohlin as his consultant. 29 This President's Committee never really formally met as a working group, but its staff was able to advance rather innovative programs in this area on the basis of the authority of its chairman, the Attorney-General, the President's brother. 30

Urban Renewal and people

The urban renewal program's belated discovery of

28 Marris and Rein, op. cit., p. 21.
29 Sundquist, op. cit., p. 120.
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28Marris and Rein, op. cit., p. 21.

29Sundquist, op. cit., p. 120.

people is the second stream of thinking that Sundquist suggests influenced participants' perception of the poverty program. Developments in this field in many ways paralleled those in the field of juvenile delinquency. One example of this change in thinking in the field of urban renewal is the concern of the head of the Ford Foundation's Public Affairs Staff, Paul N. Ylvisaker, with urban politics, particularly the so-called "grey areas" of the cities.31 Ford Foundation "grey area" projects, so named because they were aimed at the deteriorating areas between the downtown and suburbs in which newcomers to the city settled and in which Negroes remained due to discrimination, were begun because of a disappointment with urban renewal and a desire to have social planning complement physical redevelopment.32

The Cloward and Ohlin theory justified a community action attack on poverty in the "grey areas" just as it had on delinquency. In both cases, existing institutions failed to respond to the problems of urban living.33 The projects supported by the Ford Foundation and by the

31 Another example of this would be the concern of Mayor Lee of New Haven and of Edward Logue, the city's redevelopment head, for combining attempts to deal with the social as well as the physical problems of rehabilitation of slum areas. Sundquist, op. cit., p. 121.


33 Ibid., p. 53.
President's Committee both emphasized changing the environment rather than the individual, and both recognized educational and vocational opportunities as key aspects of the environment. Both believed that reform must grow out of a coordinated approach of relevant institutions in which the local population helped plan their own future. Finally, and this is an important difference from what the OEO approach was to be, both concentrated on a few projects which they believed would serve as demonstration projects for others.34

Neither the President's Committee nor the Ford Foundation ever effectively clarified the meaning of the concept "community organization." It was never clear exactly what the purposes and methods of such organizations were to be. An important point of disagreement was the extent to which these community organizations would be used as sources of political power against existing institutions to bring about reforms.35

Public welfare and rehabilitation

Public welfare's discovery of rehabilitation, as

34Ibid., p. 24. The President's Committee and the Ford Foundation did differ with respect to provisions for planning. The Foundation was much more willing to exert continuous control over a project by retaining a veto over funds held in reserve. See ibid., p. 23.

manifested in the Public Welfare Amendments of 1962, was the third strain that Sundquist suggests contributed to the poverty program. Pending a complete restudy of federal public assistance programs, and in an effort to meet the problems caused when a worker exhausted his unemployment compensation during a recession and his family became ineligible for further assistance as long as the family remained united, President Kennedy proposed as temporary emergency measures the extension of Aid to Dependent Children payments to the children of unemployed parents and the temporary extension of unemployment benefits. These proposals passed Congress, and Secretary of Health, Education and Welfare Abraham Ribicoff immediately appointed twenty-three leaders in social welfare to an ad hoc committee on public welfare.

Ribicoff's committee encountered the idea of rehabilitation when it considered the impact of these federal extensions on local and state regulations. Many states and localities were forcing able-bodied men on relief to work

36 Sundquist, op. cit., pp. 126-127. The ADC payments to financially needy children living with any relative or relatives had been recommended by the Advisory Council on Public Assistance in 1960 and the majority and minority sides of the Senate special committee on unemployment. Wilbur J. Cohen of the University of Michigan had proposed the same idea to John Kennedy prior to his inauguration. Ibid., p. 126.

37 Ibid., p. 127.
in conflict with federal regulations, originally designed to help those unable to work, which forbade this. Responding to the well publicized Newburgh case, Secretary Ribicoff's Committee stressed the need to accompany financial assistance with adequate rehabilitative services, placed work-for-relief in the same context as rehabilitation, endorsed community work projects with the safeguards stated by the American Public Welfare Association, and recommended federal aid for such projects. The Committee also said that the jobs should be useful, permit a worker to use old or to develop new skills and involve wages, not charity.

Formulating the Ribicoff Committee's recommendations into a bill in the fall of 1961, Assistant Secretary of Health, Education and Welfare Wilbur Cohen converted "community works programs" into "community work and training programs," changed the name of the Bureau of Public Assistance to the Bureau of Family Services and raised the federal share of rehabilitation services from fifty per cent to seventy-five per cent. In his Congressional message

38 On August 11, 1961, the American Public Welfare Association had endorsed work-for-relief for the able-bodies, provided that it be at the prevailing wage, not compete with private industry and not involve welfare agencies. Ibid., p. 129.

39 Ibid., pp. 127-129. 40 Ibid., p. 129.
on the bill, President Kennedy stressed that welfare must aim at prevention and rehabilitation, which would reduce the costs of welfare in both monetary and human terms, and further contended that "[t]he prevention of future adult poverty and dependency must begin with the care of dependent children."41

Retraining discovers illiteracy

The fourth element that Sundquist suggested contributed to the poverty program was the discovery of illiteracy by the retraining programs, illustrated by the legislative history of the Manpower Development and Training Act. The supporters of the Manpower Development and Training Act acknowledged one year after its passage that it was not reaching the long-term, chronic unemployed. In his June 19, 1963, message on civil rights and job opportunities, President Kennedy proposed an expansion in MDTA to permit training in literacy and basic work skills in addition to regular occupational training as well as an extension in the maximum period of training from fifty-two to seventy-two weeks. The bill passed by voice vote in December, 1963, at a time when MDTA was perceived as an

41Ibid., p. 130. When the Public Welfare Amendments of 1962 were passed, President Kennedy referred to them as "the most far-reaching revision of our Public Welfare Program since it was enacted in 1935." Ibid.
alternative to handouts and commanded wide bipartisan support.\(^42\)

Sundquist contends that by 1963, these four streams of thought and action had begun to flow together and influenced the perceptions of major participants in the policy process about the poverty problem. In particular, the Ford Foundation and the President's Committee on Juvenile Delinquency and Youth Crime were following parallel courses, each emphasizing the use of community organizations to coordinate the attack on poverty.\(^43\)

**Definition of the issue within the Johnson Administration**

When Heller gave Lyndon Johnson a report on the planning for the poverty program on November 23, 1963, he indicated strong support for it and encouraged Heller to move ahead on it.\(^44\) The poverty program came to be viewed as the proposal to distinguish the Johnson legislative program from that of Kennedy, as a distinguishing feature of Johnson's "Great Society" program.

\(^{42}\)Ibid., pp. 131-132. Opposition to a major Youth Conservation Corps was based, partially at least, on the argument that such a program would not provide relevant job training for today's youth. See ibid., pp. 133-134.

\(^{43}\)Ibid., p. 135.

\(^{44}\)President Johnson's reported reaction to Heller's report was: "That's my kind of program. It will help people. I want you to move full speed ahead on it." Bibby and Davidson, *op. cit.*, p. 227.
During the period from late November until final agreement on the content of the poverty program, the disagreement of participants on the definition of the issue was reflected in the general type of governmental response that they advocated. The Budget Bureau and Council of Economic Advisers adopted the community action approach in an effort to provide a means of coordination for the varied programs constituting the war on poverty and as a means to distinguish this program. It should be understood that not all participants agreed on the meaning of the term community action, especially on the point of whether such a concept necessarily entailed militant reform. While the Budget Bureau and CEA were espousing the community action approach, other participants defined the issue differently. Some established agencies perceived the problem as amenable to a more traditional solution that they, themselves, could administer. The Labor Department, in particular, under Willard Wirtz, believed that poverty, by definition, a lack of income, should be treated with an employment program, since jobs were the way to bring income to those individuals currently poor.

President Johnson declares total war on poverty

President Johnson defined the issue of poverty as a problem that required an all out attack on its causes. He
gave advance public notice of his intention to define the government's response to the poverty problem as a war on poverty in his January 5, 1964, comments on the Report of the Task Force on Manpower Conservation.\textsuperscript{45} Established by President Kennedy on September 30, 1963, to investigate why so many men were found unfit for military service, this group was chaired by Secretary of Labor Willard Wirtz, and included Secretary of Defense Robert McNamara, Secretary of Health, Education and Welfare Anthony Celebrezze, and Selective Service Director General Lewis Hershey. Johnson enthusiastically accepted the Report, whose principal editor had been Assistant Secretary of Labor Daniel P. Moynihan, and stressed two of its major findings: (1) one-third of the nation's young men were unqualified for military service; and (2) poverty was the principal reason for failing to meet physical and mental standards. Commenting on these findings, the President stated: "I shall shortly present to the Congress a program designed to attack the roots of poverty in our cities and rural areas. . . . This war on poverty . . . will not be won overnight."\textsuperscript{46}

In his 1964 \textit{State of the Union Message}, President Johnson declared "unconditional war on poverty in America,"

\textsuperscript{45}Donovan, \textit{op. cit.}, p. 25.

\textsuperscript{46}Ibid., p. 26.
and then asked "Congress and all Americans to join with me in that struggle."  

He emphasized that the goal was not simply to relieve the symptoms of poverty, but to cure and prevent poverty. Poverty, a national problem, required organization and support at the national level and also organization at the state and local levels. His program would emphasize this cooperative approach.  

The 1964 Economic Report defines the poverty problem.

The President and the Council of Economic Advisers used the 1964 Economic Report to define the poverty issue by explaining the extent and composition of poverty in preparation for the unveiling of the Administration's poverty program. The Report suggested a two-pronged attack on poverty--one to enable each person to build his own earning power, the other to assure a decent living standard to all, "regardless of economic reverses or the vicissitudes of human life and health."  

Education, health, skills and jobs, community and area rehabilitation, and

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47 Quoted in Congressional Quarterly Almanac, 1964, p. 862.

48 Ibid.

equal opportunity were described as the "keys to earning power" for the children of the poor, if they were to exit from poverty. While the Council saw a need to expand domestic and international markets in order to increase employment (and argued for the tax cut in this connection), it contended that higher employment alone would not end poverty, but a direct attack on the sources of poverty was required. Despite the three-year economic expansion under the Democrats, unemployment still stood at 5.6 per cent during the last quarter of 1963, down from 6.7 per cent in 1961.

The second chapter of the 1964 Report is devoted to a discussion of poverty and its costs to the poor and to society. The Council defined the poor as "those who are not now maintaining a decent standard of living--those whose basic needs exceed their means to satisfy them."

Operationalizing this definition in terms of 1962 prices, the Council defined as poor families of four with a total income of $3,000 or less before taxes and unrelated persons with incomes below $1,500. In 1962, one-fifth of the

50 Ibid., pp. 15-16.  
51 Ibid., p. 29.  
52 Ibid., p. 37. While seasonally adjusted unemployment rate dropped from 6.7 per cent in 1961 to 5.6 per cent in 1962, no significant drop occurred during 1963, as the monthly rate averaged 5.7 per cent. Ibid.  
53 Ibid., p. 57.
families in the United States had incomes below $3,000 and forty-five per cent of the "unrelated persons" had incomes below $1,500. This placed thirty-three to thirty-five million people--nearly twenty per cent of the population--at or below the boundaries of poverty.\textsuperscript{54}

The Council also reported that in recent years, people did not seem to be moving out of poverty at as fast a rate as they previously had. From 1947 to 1956, the number of poor families declined from thirty-two per cent to twenty-three per cent of all families, but from 1957 to 1962, the number of families living in poverty fell less rapidly--from twenty-three per cent to twenty per cent of all families. In addition, no major change had taken place in the distribution of income since World War II.\textsuperscript{55}

The Report also identified the poor in terms of social characteristics. While the inadequately educated, the aged, and the nonwhite make up substantial portions of the poor population, the poor were to be found among all major groups in the population and in all parts of the

\textsuperscript{54}Ibid., pp. 58-59.

\textsuperscript{55}The top one-fifth of families in incomes received 43 per cent of the total income in 1947 and 42 per cent in 1962 and the one-fifth of all families with the lowest incomes received 5 per cent of the total income in 1947 and in 1962. \textit{Ibid.}, p. 60.
The Report also called attention to the vicious cycle of poverty—to the likelihood that those born poor will remain poor as will their own children. Poor parents are unable to provide their children with opportunities for better health and education, which explains the lack of motivation among poor youth.57

In discussing ways to attack poverty, the Council argued that high employment was important because some of the poor are unemployed or underemployed, but that there are also those who are able and willing to work but whose earnings are inadequate and that a large number of the poor are unable to work.58 Other elements in the strategy against poverty suggested by the Council included accelerated economic growth, fighting discrimination, improving regional economies, rehabilitating urban and rural communities, improving the labor market, expanding educational opportunities, enlarging job opportunities for youth, improving the nation's health, promoting adult education and training, and assisting the aged and the disabled.59

56 Ibid., p. 62. For a discussion of the incidence of poverty among various social groups, see Ibid., pp. 56-57.

57 Ibid., p. 69. 58 Ibid., pp. 62-64.

59 Ibid., pp. 73-76.
United States could end poverty by providing income supplements to bring poor families up to the $3,000 level. This would cost $11 billion per year, only one-fifth of the annual defense budget and less than two per cent of the GNP. But the Council said that most Americans wanted to earn their own standard of living. The Council concluded its discussion by calling on the nation to change its attitude regarding poverty—to recognize that poverty is not inevitable and that a moral obligation exists to eliminate it.

The poverty issue defined by professionals

Daniel P. Moynihan has suggested that professionals defined the poverty issue and formulated the poverty program in a manifestation of what he calls the "professionalization of reform." This concept suggests that the social reform efforts of the Kennedy and Johnson Administrations, unlike those of Franklin Roosevelt, were not the result of massive public pressure, but were conceived and advocated by professionals, who also provided the major impetus for lobbying in Congress. The poverty program was the result of the work of professionals whose job is to

60 Ibid., p. 77.  
61 Ibid., p. 78.

concern themselves with the welfare and advancement of the less fortunate members of society. Moynihan suggests that decisions on social reform are more administrative than political and can be made by professionals on the basis of knowledge available, as he contends the case of the poverty program illustrates.

Despite the involvement of the professionals, the participants did not agree on an exact definition of the poverty program or on the contents of the governmental response to the problem. President Johnson's emphasis on legislative maneuvering brought the program to the legislative stage much too quickly before their ideas could be thought out. Moynihan suggests five different definitions of the poverty problem and of appropriate responses held by participants in the policy-making process and finally inherited by the Shriver Task Force: first, a generalized judgment within the Kennedy Administration that


64 Ibid., pp. 10-16. Moynihan is so optimistic, particularly about the consequences of man's ability to control an industrial economy, that he suggests that parties might have longer tenure due to fewer economic disruptions and that the gains in revenue may be so great that government will have to create new programs to spend it on. It is in this context that he believes decisions would become administrative rather than political. Ibid., pp. 10-12.

America was not performing anywhere near as well as it could; second, Lyndon Johnson's populism and concern for the rural poor; third, a general preoccupation with unemployment; fourth, the claim that the problems of lower-class individuals required changes in the social structure as well as in their perception of it; and fifth, the claim that these changes could be induced by group action.66

Poverty and "interest group liberalism"

Lowi contends that following President Kennedy's first response to the poverty problem (the manipulation of aggregate demand, which Lowi believed was bound to be ineffective because so many of the poor on welfare were unemployable), the ideology of interest group liberalism influenced the definition of the issue of poverty and the outline of a solution in the Kennedy and Johnson Administrations. The highly touted Public Welfare Amendments of 1962 reflected the interest group liberal approach as they tried to solve real problems in the Aid to Dependent Children program by making a hitherto nondiscretionary program discretionary, omitting any clear statutory standards, and by delegating the responsibility for meeting the goal of

66Ibid., p. 22.
reduced welfare rolls to state ADC programs and case-workers.67

While the poverty issue presented policy-makers with a large substantive, almost critical issue, rather than several discrete incremental issues, they still proceeded in an incremental fashion. The decision to employ the community action concept was really no decision, for it meant avoiding decisions about which programs to fund in the face of limited resources. The Budget Bureau adopted the community action concept as a means of coordinating incremental programs in the field, but the participants' ideology did not permit them to see any need to alter the power structure in Washington. In Lowi's view, the New Welfare is a "systematic expression of interest-group liberalism," for it provides for the official recognition of private decisions reached by a process unclearly explained in the statute, is policy-without-law, and by providing for representation in administration, discredits both the principles of representation and of administration.68 By stressing the delegation of power, by being


68 Ibid., pp. 232-233.
"completely process-oriented non-law," particularly in its important and new titles, and by delegating to public and private groups the responsibility for determining what's responsible for poverty, the Economic Opportunity Act reflects interest group liberalism. Interest group liberalism defined poverty as an economic problem, but Lowi suggests it should be defined as a moral one.

Formulation

The Economic Opportunity Act of 1964 represents the extreme case of a bill written entirely within the executive branch which Congress was then asked to ratify.

While three groups--representatives of the Council of Economic Advisers and of the Budget Bureau, the Shriver Task Force, and the traditional cabinet departments--played

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69 Ibid., pp. 232-233, 238.

70 Ibid., p. 244. Lowi argues that the New Welfare of interest-group liberalism has missed the causes of poverty and demoralized the civil rights movement because interest-group liberalism refuses to make moral choices and set legislative standards. Ibid., p. 239. He believes capitalist poverty is an objective phenomena susceptible to treatment by general rules implemented by a bureaucratic system. The Old Welfare can deal with such poverty by increasing redistribution or revising categories of public assistance. Ibid., p. 243. To Lowi, what is needed is a change in the rules that determine who is poor. But the economic incrementalism and pluralism of interest-group liberalism cannot change rules. Ibid., p. 248.

71 For comments on this point, see Bibby and Davidson, op. cit., pp. 220, 248-251; Donovan, op. cit., p. xv; and Sundquist, op. cit., pp. 493-494.
important roles in the formulation of the proposal, it was the Shriver Task Force that actually wrote the final version presented to Congress. The CEA and Budget Bureau version, which had the community action concept as the unifying theme of the program, drew the opposition of the cabinet departments led by Secretary of Labor Wirtz. After a deadlock appeared likely between these two groups, President Johnson selected Peace Corps Director Sargent Shriver to draw up the bill.

The early stages of formulation under the Kennedy Administration

By October, 1963, upon President Kennedy's instructions, Heller and the Council had begun formulating a set of proposals for an attack on poverty for possible inclusion in the 1964 legislative program. 72 Heller and Capron assembled fifty-eight ideas, gathered largely from Labor and HEW, and attached them to a November 5, 1963, memo to concerned departments and agencies, in which Heller identified three approaches to the problem: preventing entrance into poverty; promoting exit from poverty; and alleviating

72 Sundquist, op. cit., p. 136. On October 30, 1963, Walter Heller sent a memo to relevant cabinet officials that said: "As you know, Ted Sorensen has asked me to pull together for the President's consideration a set of measures which might be woven into a basic attack on the problems of poverty and waste of human resources, as part of the 1964 legislative program." Daniel P. Moynihan, "What Is Community Action?" Public Interest (Fall, 1966), p. 4.
the difficulties for those unable to escape. On November 19, the President told Heller to proceed on the assumption that anti-poverty proposals would be included in the 1964 legislative program and to show him the proposals in a few weeks. When Heller informed President Johnson of this on November 23, 1963, and stated the Council's hope that the work could continue within budgetary limits, President Johnson expressed great interest in and sympathy for the program and told Heller to proceed with it.

The Council and the Budget Bureau adopt the idea of Community Action

The CEA and the Budget Bureau adopted the concept of community action programs as a device to coordinate various programs within the poverty package and in order to provide the bill with a theme to distinguish it from other legislation. In November, 1963, the Council received from David Hackett of the President's Committee on Juvenile Delinquency the suggestion of using community action organizations in the attack on poverty, as had been done with respect to juvenile delinquency. Hackett and Richard W. Boone, who

\[73\] At this time, Heller proposed calling the program "Widening Participation in Prosperity" as a concession to those who believed poverty had too negative a connotation and would be offensive to those who would be helped. Sundquist, op. cit., p. 137.

\[74\] Ibid., p. 137; Bibby and Davidson, op. cit., p. 226.
had worked with the Ford Foundation's grey area projects, subsequently pursued this idea with Heller and Capron, who, in turn, communicated with the Budget Bureau staff. Hackett and Boone at this time envisioned a cautious start involving comprehensive studies in a limited number of carefully chosen demonstration areas "before legislation was even proposed." 75

In a memorandum on the Hackett-Boone proposal, William B. Cannon of the Budget Bureau staff suggested ten demonstration areas, each with a "development corporation" responsible for planning, spending and coordination, and federal funding for a wide variety of programs. The corporation would be highly visible and distinct. It would also "solve" the immediate problem of which programs to choose by deferring that question to the corporation. This scheme would meet a requirement of Assistant Budget Director Charles L. Schultze that poverty funds be concentrated geographically in "pockets of poverty" rather than spread across the country. 76

Schultze endorsed the idea to Budget Director Gordon and suggested a name other than "development corporation" was in order. The new name was developed by placing the

76 Ibid., p. 138. See also Bibby and Davidson, op. cit., pp. 227-228.
word "community" in front of the term "action program," which was found in Cannon's original memorandum. Supporters of the concept turned to Paul Ylvisaker, who helped convince the Budget Bureau staff. The staff prevailed on Gordon, who then with Heller, helped convince President Johnson. In mid-December, aid to community organization became the entire war on poverty as first $100 million and then the entire sum of $500 million set aside for the war on poverty was allotted for this purpose.\(^7\)

Participants in the policy process disagreed on the meaning of the concept "community action." Moynihan, for example, suggests that by the time of the bill's submission to Congress, four definitions of the concept of "community action" were prevalent: (1) the Budget Bureau concept that community action programs would provide an efficient means of coordinating federal programs at the local level; (2) the Saul Alinsky concept (which Moynihan believed was well represented in the federal bureaucracy after the President's Committee on Juvenile Delinquency had begun supporting such programs in 1961) that through community action, by inducing conflict, the poor meet their most important need--that of acquiring power; (3) the Peace Corps' concept that community action meant increased services for, and increased

\(^7\)Sundquist, op. cit., pp. 138-139.
ability for local self-help, by the underdeveloped peoples of the United States; and (4) the Shriver Task Force definition that community action was a program that would pass Congress, help win the election and eliminate poverty, "in perhaps that order." Moynihan contends that the poverty program was staffed about equally with representatives of the four different interpretations without any real appreciation that these differences existed. Although they may disagree on the nature of alternative definitions, other writers concur that there was no agreement on the meaning of community action.

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79 Ibid., p. 7.

80 For example, Sundquist cites Marris' formulation of three different strategies then being pursued: (1) the Ford Foundation projects that tried to work through existing institutions; (2) the strategy aimed at mobilizing the poor to defend their own interests, on the Model of the Mobilization for Youth; and (3) the strategy followed by the President's Committee on Juvenile Delinquency, which Sundquist writes, "put its faith in the application of knowledge, through comprehensive planning, with the risk that planning might never lead to action." Sundquist, op. cit., p. 140. Note that Sundquist does not emphasize that the strategy followed by the President's Committee was based on inducing conflict. He adds that the "planners of the President's community action program did not choose among the divergent strategies--insofar as they recognized the divergencies, they recognized also that no one pattern could fit all communities." Ibid., p. 141. And in Donovan's view, few participants had a clear idea of what was involved in community action, and most of those who did were on the staff of the President's Committee. Donovan, op. cit., pp. 40-41.
The notion of "maximum feasible participation by the poor" was closely connected with the concept of community action programs and seems to be equally misunderstood. Maximum feasible participation apparently came from the staff of the President's Committee and, significantly, gained the support of the Budget Bureau because it was the only new element in the program. It was apparently designed particularly to affect Southern Negroes and the Shriver Task Force did not seem to consider the consequences of this process for Northern cities. In Moynihan's view, the Shriver Task Force adopted maximum feasible participation in an effort to provide as many jobs as possible for the poor and wanted to establish an urban ethnic machine. Even Adam Yarmolinsky, who was Shriver's deputy in preparing the bill, has suggested that "maximum feasible participation" for him meant the poor would implement the services provided but not that they would control the program.

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Donovan, op. cit., pp. 33, 41.

82Ibid., p. 42.

83Moynihan, "What Is Community Action?" op. cit., pp. 6-7. He writes: "The Task Force wanted programs that would work so as to help the President, the party, the poor, and readily assumed that the more persons involved, the more this was likely to occur on all three fronts." Ibid., p. 7.

84See Sundquist, op. cit., p. 152, footnote 95.
Agency objections to the CEA-Budget Bureau poverty proposals

During late December and January, 1964, several agencies, led by Secretary of Labor Wirtz, objected to the proposal as put forth by the CEA-Budget Bureau group. In a January 23, 1964, outline of its thinking, the Council-Budget staff stated that each community should have an organization or official with authority to coordinate public and private efforts attacking poverty, but did not specify how the organization should be created or whom it should represent. It made no mention of organizing the poor for self-assertion and compromised the question of whether the programs should emphasize planning or action by requiring a comprehensive plan but also permitting some action programs to start during the planning period. The outline proposed dividing the $500 million allocated for the poverty program at this time as follows: $50 million for planning; $275 million for grants to communities for new programs; and $175 million for supplementing existing federal programs in community action areas. The program emphasized children and youth, for it was thought that the poverty cycle could best be broken at that stage.85

Secretary Wirtz responded in a memo that improvements in health and education, while desirable, would not produce

85Ibid., p. 141.
immediate results. In his view, jobs should be the major element in an attack on poverty, since poverty was lack of income and income came from jobs. He saw very few jobs in the proposed community action program. In addition to these Labor Department concerns, other departments thought that their interests or clientele were not being adequately considered in the Council-Budget Bureau plan. At a January 23, 1964, White House meeting, Wirtz attacked an HEW drafted bill, which had been prepared at the Council's request, and argued instead for basically an extension and redirection of activities carried on by existing agencies. He understood that the draft bill would emphasize the role of teachers and social workers, for whom HEW spoke, at the expense of the traditional Labor Department concerns. The Council and Budget Bureau were unable to resolve this dispute with the cabinet departments led by Wirtz. In an effort to avoid the threatened stalemate, the President turned to Sargent Shriver.

The Shriver Task Force

Sargent Shriver had been highly recommended to

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86 Ibid. For example, the Agriculture Department wanted more attention placed on rural poverty and the Commerce Department believed the role of local business leadership could be enhanced. Bibby and Davidson, op. cit., p. 229.

87 Bibby and Davidson, op. cit., p. 229.
President Johnson for the job of organizing the war on poverty and for other positions as well.\textsuperscript{88} Budget Director Gordon and CEA Chairman Heller advised President Johnson to give Shriver the job of at least organizing the poverty program.\textsuperscript{89} Shriver's reputation as a man who was successful organizing and leading the Peace Corps, imaginative but effective, and well regarded in Congress made him an attractive figure for this position.\textsuperscript{90} Notified of his appointment on February 1, 1964, Shriver arranged a briefing by Heller and Gordon on February 2 and scheduled an all day meeting for February 4.

The version of the poverty bill finally submitted to Congress was formulated by the Shriver Task Force, a fluid and loosely organized group. Donovan conceives of the task force as including three major participants: Adam Yarmolinsky, special assistant to Secretary McNamara, from the Defense Department; Daniel P. Moynihan from the Labor

\textsuperscript{88}For example, Bill Moyers, Shriver's former deputy at the Peace Corps, urged the President to give Shriver some high level position such as Secretary of Health, Education and Welfare or the contemplated but never created position of Under Secretary of State for Inter-American Affairs. Rowland Evans and Robert Novak, \textit{Lyndon B. Johnson: The Exercise of Power} (New York: New American Library, 1966), p. 428.

\textsuperscript{89}Ibid.

\textsuperscript{90}Donovan, \textit{op. cit.}, p. 29.
Department; and James Sundquist from the Agriculture Department.91 Others involved in writing the bill included: Wilbur Cohen, HEW's assistant secretary for legislation, who looked out for his department's interests; the professional staff of the President's Committee on Juvenile Delinquency; the Budget Bureau (concerned lest the Shriver group take over a Budget Bureau function); and agencies desirous of protecting their interests, e.g., Labor, CEA, Interior, Commerce, Agriculture. Shriver, who had the Presidential mandate, was central to writing the bill. He turned more to individuals outside of government, especially when he realized that departmental advice reflected the conventional wisdom and bureaucratic self-interest.92

91Yarmolinsky, who had served with Shriver in his preinaugural search for talent, became the principal deputy in preparing the poverty program. Moynihan had served on the staff of Governor Averell Harriman of New York and had been recommended for Assistant Secretary of Labor by Wirtz when he became Secretary. Sundquist, principal deputy in the office of the Undersecretary of Agriculture, had served as administrative assistant to Senator Joseph Clark of Pennsylvania, an aide to Governor Harriman, and a member of the White House Staff under Truman. Ibid.

92Ibid., pp. 30-32. Bibby and Davidson suggest that the Shriver Task Force may be viewed as consisting of generalists, intellectuals, departmental representatives, a legislative drafting team, and review and decision-making by Shriver and Yarmolinsky. They also note that outside consultants were called in. For their diagram of the Shriver Task Force, see Bibby and Davidson, op. cit., p. 232. They suggest that certain individuals had key roles in preparing various titles of the poverty act: (1) Moynihan, work training (I) and domestic peace corps (VI); (2) Richard Boone of the White House, community action
The Shriver Task Force changes the poverty proposal

The February 4, 1964, meeting of the Shriver Task Force changed the concept of community action as it had been developed by the Budget Bureau (i.e., a limited number of demonstration projects) and laid the foundation for an increase in the number and variety of programs to be included in the poverty proposal. The group concluded that a limited number of demonstration projects dependent on a fully developed comprehensive plan was incompatible with the President's rhetoric for an unconditional war on poverty and agreed that individual projects should proceed consistent with the ultimate plan. Wirtz argued that a war on poverty could not be fought in a few demonstration programs but that a multifaceted approach, including a job creation program, was required. Shriver agreed that community action alone could not do the job. He favored

(II); (3) James Sundquist of Agriculture, agricultural loans (III); (4) Harold Galloway of Small Business Administration for small business loans (IV); (5) James Alder of Commerce for work-experience program (V); and (6) William Cannon of the Budget Bureau, organization of the new poverty agency. Ibid., footnote 8. The idea people included Yarmolinsky, Christopher Weeks (previously with the Peace Corps but, at the time of the poverty program, with the Budget Bureau), Frank Mankiewicz with the Peace Corps, and authors Paul Jacobs and Michael Harrington. Ibid., pp. 232-234. Department representatives mentioned include Moynihan from Labor, HEW lawyer Harold Horowitz, Sundquist from Agriculture, and James Alder and Hyman Bookbinder from Commerce. Ibid., pp. 231-232.
programs with a more immediately visible payoff, in view of the Presidential election nine months off and the need for an annual defense of the program before Congress. A one-title bill would also be a great letdown in view of the manner in which the attack on poverty was being publicized. Shriver was willing to have the community action programs coordinate as much as possible, but he also favored a role for other organizations, including federal agencies.\footnote{Ibid., pp. 230-231; Sundquist, op. cit., p. 142.}

After this meeting, Shriver encouraged agencies to resurrect all the proposals that the Budget Bureau had rejected in December. He also consulted with the business community, intellectuals, state and local governments, and private organizations. The bill gained five more titles, which included provisions from some bills already before Congress.\footnote{Sundquist, op. cit., p. 143; Bibby and Davidson, op. cit., p. 231.} The Labor Department, which had a modified version of the youth employment bill stalled in the Rules Committee, was able to get two job titles inserted. One title contained a provision for Job Corps (a renamed YCC with emphasis on urban training and remedial education centers rather than conservation camps), provision for a Neighborhood Youth Corps (for local public service employment and training program) and borrowed the work program
for college students from a pending education bill. The second job title temporarily provided 100 per cent federal financing of the work and training program authorized under the Public Welfare Amendments of 1962, a program which was running slowly because of the requirement of state or local financial participation. In exchange for withdrawing its Youth Employment bill then before Congress, it was "understood" that the Job Corps and the Neighborhood Youth Corps would be administered by the Labor Department. Claiming that a "rural" title would bring wider acceptance in Congress, the Agriculture Department received (a) a small loan program for farmers and rural businessmen, (b) a supplementary grant program, and (c) a "land reform" scheme to offer land to small farmers by subdividing large tracts that might be offered for sale. The Small Business Administration worked with the task force and devised an employment and business incentives title which included a liberalized small loan program for low income businessmen. Finally, a national service corps which had narrowly passed the Senate in 1963 was included under the new name of Volunteers for America.

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95Sundquist, op. cit., p. 143.
97Sundquist, op. cit., pp. 143-144.
Wirtz's major job creation proposal rejected again

The established agencies won a victory of sorts at an early March cabinet meeting, but Secretary Wirtz suffered a defeat for his proposal to include a major job creation program. At this meeting, Secretaries Wirtz of Labor, Orville Freeman of Agriculture, and Celebrezze of Health, Education and Welfare attacked the Shriver-Yar-molinsky approach and claimed it had an unhealthy military flavor. Wirtz and Celebrezze strongly opposed a separate poverty agency under Shriver and agreed instead that the program should be administered by the traditional departments. President Johnson agreed that he did not want a military tone to the program and, hence, the importance of army training camps was diminished. However, he did favor a separate agency running the program, for he felt an old-line agency might kill the poverty program. 98

Once the President decided on a separate agency, disputes concerning which programs would be administered by the OEO and which by the cabinet agencies had to be settled. Despite the previous understanding that the Labor Department would get the Job Corps and the Neighborhood Youth Corps in return for withdrawing its Youth Employment bill, 

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98 Evans and Novak, op. cit., p. 430. The authors call this "the most tumultuous cabinet meeting of Johnson's Administration." Ibid.
Shriver decided he wanted the Job Corps for his own agency, apparently expecting quick and favorable results from such a program. President Johnson resolved these disputes by placing the Job Corps in the OEO, along with community action, migrant assistance and VISTA programs. Labor got to keep the Neighborhood Youth Corps and the work experience programs went to HEW. In addition, informal agreements provided that other programs (rural loans, small business loans, and work study) be delegated to relevant agencies for operation, subject to OEO supervision.\footnote{Anderson, \textit{op. cit.}, p. 4.}

An adult employment proposal had been vigorously explained in the Shriver Task Force and encountered little opposition there. In the package presented to the cabinet, Shriver included the proposal for an adult employment program to be financed by a special five cents tax on cigarettes (an idea originally proposed by Senator Gaylord Nelson of Wisconsin). The Council of Economic Advisers opposed the plan, contending that the tax was regressive, was likely to destroy almost as many jobs as it would create, and that there was no guarantee that the new jobs generated would be taken by the poor. The most optimistic Labor Department forecast was that the plan would provide for an increase of only from 50,000 to 90,000 jobs, although Shriver believed that through various multiplier
effects and other devices 500,000 jobs would be on the poverty target. The President opposed this plan, for the Chairman of the Ways and Means Committee opposed earmarking, and 1964 was a tax cutting, not a tax increasing, year.100

The bill presented to Congress placed the central poverty office--the Office of Economic Opportunity--in the Executive Office of the President and gave broad discretionary authority to its director. The bill left vague the definition of community, the nature of community organization, and the control of its programs. Neither the cities nor states were given any assured role except that the OEO was to "establish procedures which will facilitate effective participation of the states."101

The final version of the bill presented to Congress was the result of bargaining within the Executive Branch, a process originally stimulated by the White House, working through the CEA. But when the Council and the Budget Bureau were unable to bring about agreement within the Executive Branch on a draft bill, the President turned to Shriver, who with Presidential backing, was able to resolve

100 Moynihan, "The Professors and the Poor," op. cit., p. 22. See also Sundquist, op. cit., p. 144.

101 Sundquist, op. cit., p. 145. For a discussion of the OEO as the coordinator of the poverty program, see Anderson, op. cit., pp. 4-10.
the conflict.\footnote{102} The President apparently lacked personal interest in the bureaucratic struggles about the specific content of the poverty bill. He was more concerned about an end--the achievement of a national consensus to eliminate poverty--than about the means--the content of the poverty program.\footnote{103} The proposed bill authorized $962.5 million for the war on poverty. This sum was obtained by adding $462.5 million in funds that had been provided for elsewhere in the budget to the $500 million originally allocated for the poverty program, thus permitting the war to begin under a budget that the President portrayed as frugal.\footnote{104} The final bill contained one central new idea--community action--along with several long discussed programs.\footnote{105} In effect, the proposal included just about everything that anyone had seriously put forth, with the important exception of Wirtz's job creation proposals.\footnote{106}

Communications

The function of communications, i.e., transmitting information or creating interest in the poverty problem or

\footnote{102}Bibby and Davidson, \textit{op. cit.}, p. 244.
\footnote{103}Evans and Novak, \textit{op. cit.}, p. 430.
\footnote{104}Sundquist, \textit{op. cit.}, p. 144.
\footnote{105}Ibid.
\footnote{106}See, for example, Anderson, \textit{op. cit.}; and Moynihan, "The Professors and the Poor," \textit{op. cit.}, p. 22.
in the poverty proposal designed to combat it, was performed primarily by writers and other professionals in and out of government who were concerned with the poverty problem, the CEA and the President. Several writers, e.g., Harrington, Caudill, were responsible for raising the question of poverty and, through their work, were responsible for transmitting knowledge, statistical and otherwise, about the extent of poverty in this country. In addition, the staff of certain governmental agencies engaged in research that was used to create interest in the problem. Individuals connected with the various Ford Foundation projects and those on the Staff of the President's Juvenile Delinquency Committee also performed the communications function, insofar as they communicated information about the usefulness of the community action approach to the poverty program.

The members and staff of the Council of Economic Advisers were very important in performing the communications function within the executive branch. The CEA did the major research within the executive branch on the extent of poverty in the United States. Heller even floated some trial balloons in an effort to see what the public reaction would be to the proposed poverty plan. Chapter 2 of the 1964 *Economic Report* laid out the statistical basis for the war on poverty by thoroughly explaining the extent of American poverty.
The third major participant performing the communications function was the President. President Johnson publicized the problem and in general terms transmitted information about the general nature of his Administration's response to the problem.

**Mobilization**

The general strategy followed by the President and other proponents of the bill was to obtain as wide support as possible among Democrats. The proposed bill, itself, which was an amalgam of several proposals, provided the basis for such a wide appeal. The President was particularly interested in building support for this bill so that it could pass by the summer and symbolize his own Administration and "Great Society" program.\(^{107}\)

President Johnson played an important role, through his speeches, in mobilizing support for the poverty program. He tried to mobilize support in his March 16, 1964, message introducing the poverty bill by arguing that the war on poverty was right, that it would contribute to everyone's prosperity and that conquering poverty was possible for the first time in history. He argued that the war on poverty would strike at the causes, not just the consequences of poverty and that it was a new approach, not just

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\(^{107}\)See Evans and Novak, *op. cit.*, p. 431; and Sundquist, *op. cit.*, p. 146.
a repeat of old programs. While Congress had met its constitutional mandate to provide for the general welfare, the time had come to extend this to all the people. President Johnson said that, as President, he felt a "special responsibility to the distressed and disinherited, the hungry and hopeless of this abundant nation." Finally, he noted that the $970 million requested for the poverty program constituted only one per cent of the national budget. While he admitted that this would not eliminate all poverty, he stressed that it was "a commitment by this President, and this Congress, and this nation, to pursue victory over the most ancient of mankind's enemies."

One technique that President Johnson employed to mobilize support, particularly in the House, was to try to influence legislators through intermediaries. For example, he persuaded Stuart Saunders, the President of the Pennsylvania Railroad, to call Pennsylvania's Republican congressmen to ask for their support for the poverty program. The

108Congressional Quarterly Almanac 1964, p. 875.

The President argued that the war on poverty would provide almost one-half million young people the opportunity to develop skills, continue their education and find useful work, and would give other young people the chance to volunteer to help fight the war against poverty. The attack on poverty would also give farmers and workers the chance to break out of poverty and would give localities and the nation the opportunity to wage war against poverty. Ibid.

109Ibid., p. 876. 110Ibid.
President also convinced other industrialists, businessmen and newspaper editors to call reluctant congressmen on behalf of the poverty bill.\textsuperscript{111}

The Administration's legislative strategy assumed that the Northern Democrats would support the bill the President wanted and that efforts would be made to line up Southern Democratic support to make the bill a Democratic measure.\textsuperscript{112} Efforts to mobilize support for the bill were concentrated in the House, where greatest opposition was expected. Representative Adam Clayton Powell, the Chairman of the House Education and Labor Committee, began hearings the day after the President's speech, by forming an ad hoc subcommittee on poverty, which he headed.\textsuperscript{113} These hearings were designed to demonstrate the broad support for the

\textsuperscript{111}Evans and Novak, op. cit., p. 432. Evans and Novak report that none of these men had the vaguest notion of the controversial contents of the poverty program, but the President had convinced them that something had to be done. Ibid.

\textsuperscript{112}Donovan, op. cit., p. 34.

\textsuperscript{113}This ad hoc subcommittee included the following Democrats in addition to Powell: Carl D. Perkins (Ky.); Phil Landrum (Ga.); Edith Green (Ore.); James Roosevelt (Calif.); Frank Thompson, Jr. (N.J.); Elmer J. Holland (Pa.); and John H. Dent (Pa.). Republican members were: William H. Ayres (Ohio); Robert D. Griffin (Mich.); Albert H. Quie (Minn.); Charles E. Goodell (N.Y.); Donald E. Bruce (Ind.); David T. Martin (Neb.). In addition, all members of the full committee were invited to attend the hearings. Congressional Quarterly Almanac, 1964, p. 215.
bill. Shriver was the first witness and was followed by Heller, who presented the statistical explanation of the need for the program. In the next two weeks high cabinet officers testified and they were followed by group spokesmen. Of the seventy-nine witnesses who testified, only nine were opponents of the bill. In order to resolve differences among Democrats, Powell held caucuses of the Democratic members. His method of conducting the committee hearings and his efforts to speed up the process, in which he was supported by the next two ranking Democrats on the committee, Phil Landrum of Georgia and Carl Perkins of Kentucky, brought criticism from Republican members. The minor concessions made by the committee to Republicans and Southern Democrats did not seem to be very successful, for the Republican committee members voted against

114 Bibby and Davidson, op. cit., pp. 239-240. Group spokesmen who testified in favor of the bill included: President George Meany of the AFL-CIO and Executive Director Whitney Young, Jr. of the National Urban League. Also in favor of the bill were representatives of a wide range of groups including the National Council of Churches, the National Catholic Welfare Council, the American Public Welfare Council, the National Farmers Union, and the General Federation of Women's Clubs. Of the nine witnesses opposed, four came from interest groups traditionally opposed to federal spending for social welfare (the U.S. Chamber of Commerce, the National Association of Manufacturers, the American Farm Bureau Federation and the Illinois Manufacturers' Association), two were Republican members of the Joint Economic Committee, and three were professors who argued the bill's form was unclear. Ibid., p. 240.
reporting the bill. 115

Three specific actions were taken in an effort to mobilize Southern Democratic support--the selection of Democratic Representative Phil Landrum of Georgia as the sponsor of the bill, the elimination of Adam Yarmolinsky from consideration for any major administrative position in the poverty agency, and the insertion in the bill of a provision for a gubernatorial veto of certain kinds of projects. After introducing the bill, Powell turned it over to Landrum, a southern conservative noted for his considerable parliamentary skill. 116 To counter the states rights argument, Landrum accepted an amendment on the floor permitting a gubernatorial veto of any project except those sponsored by institutions of higher education. 117 He also accepted the amendment of Representative Basil L. Whitener of North Carolina that required that participating private

115 Ibid., pp. 241, 243.

116 Sundquist, op. cit., pp. 146-147. Sundquist reports that Landrum, best known as the co-author of the Landrum-Griffin Labor Act, was despised by liberals, who had prevented him from obtaining a seat on the Ways and Means Committee in 1963 because of his conservative record. In 1965, however, after passage of the Economic Opportunity Act, he got a seat on Ways and Means. Ibid., p. 147, footnote 81.

117 Ibid., p. 148. In the final form of the bill, the gubernatorial veto applied to title I and title II projects and provided a governor with a thirty-day period in which to review proposed projects in his state. Donovan, op. cit., p. 36.
organizations be limited, with the exception of institutions of higher learning, to those groups with an established "concern for the problems of the poor." \(^{118}\)

The so-called sacrifice of Adam Yarmolinsky, a special assistant to Secretary of Defense Robert McNamara who was on loan to Shriver to help in the formulation of the poverty program, was an obvious sop to the South. In the view of some Southern Democrats, Yarmolinsky was a radical. As McNamara's assistant, he had drawn up a 1963 directive aimed at ending off-base discrimination against Negro servicemen. \(^{119}\) At an August 6, 1964, meeting in Speaker McCormack's office, Democrats from North and South Carolina obtained assurances from the President through Shriver that Yarmolinsky would get no administrative position in the new poverty agency in return for their votes. By this bargain the Administration received eight votes. In the final analysis, this bargain was unnecessary. Since the key vote on August 7 was 228-190 and since the President, through his attempts to influence industrialists, had helped add twenty Republican votes, the eight Democratic votes from the Carolinas were unnecessary. \(^{120}\)

\(^{118}\) Sundquist, op. cit., p. 148.

\(^{119}\) Congressional Quarterly Almanac, 1964, p. 227.

\(^{120}\) See Evans and Novak, op. cit., p. 432. At his August 8 and August 15 press conferences, President Johnson denied that Yarmolinsky was even working on the poverty bill. Ibid., p. 433.
The strongly partisan 226-185 vote by which the House finally passed the bill on August 8 indicates the general success of the strategy. The 226 supporters of the bill included 144 Northern Democrats, 60 Southern Democrats, and 22 Republicans, while the 185 opponents included 145 Republicans and 40 Southern Democrats.\(^{121}\)

The greatest Congressional resistance arose in opposition to those provisions relating to rural poverty and, ironically, this occurred in the Senate where the Administration thought it had its greatest strength. In an attempt to overcome this opposition, the Senate leadership agreed to the deletion of the provision authorizing outright grants to impoverished farmers and substituted a loan program. But the Administration suffered a real defeat when the Senate adopted Frank Lauche's amendment that deleted the plan to establish a farm development corporation to buy blocks of land to be sold at lower prices for family farms.\(^{122}\)

House Republicans tried to mobilize opposition to the bill by adding the Southern Democrats to their own unified ranks. In an attempt to achieve this, they attacked the bill's administrative arrangements, the broad authority granted to the OEO director (whom they referred to as a "poverty czar"), raised the states' rights issue

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\(^{121}\) Donovan, op. cit., p. 36.  
\(^{122}\) Ibid.
and expressed concern over the new relations that would be established between the federal government and public and private groups at the local level, which would involve the bypassing of governors, many of whom were Republicans. They also argued that the bill was not needed, that inflation, not welfare, was the real problem, and that, in any case, more study was needed. The Republican substitute, introduced by Representative Peter Frelinghuysen, was in some ways similar to the Administration bill. However, the substitute bill eliminated the job corps program, provided for coordination by HEW, gave more powers to the states, and authorized more research into the poverty question.123

Rules Committee Chairman Howard Smith also tried to mobilize opposition by stalling the bill. On June 3, the Labor and Education Committee reported the bill, and Landrum petitioned the Rules Committee for a rule. At hearings on June 16 on the rule, Judge Smith expressed his doubts about the bill, claiming it was "too vague and indefinite" and worried about whether Job Corps camps would be coeducational and integrated. Several weeks later, on July 28, the committee granted a rule for the bill by an 8-7 vote.124

124Ibid., p. 244.
During House floor debate, attempts at mobilization for and against the bill were highly partisan in tone, as Republicans claimed the Democrats and the Administration were using unprecedented power in an attempt to line up votes and Democrats charged that Republican leaders were having their members vote no without even reading the bill. Both opponents and proponents tried to obtain the support of Southern Democrats.\textsuperscript{125} Representative Smith's motion to strike the enacting clause first carried by a teller vote of 170-135, but the Administration reversed this by a roll call vote of 225-197.\textsuperscript{126}

In the Senate, the bill's sponsors sought to meet some of their opposition by accepting two compromise states-rights amendments offered by Senator George Smathers that provided for a gubernatorial veto over Job Corps camps and contracts with private agencies.\textsuperscript{127}

\textbf{Modification}

Most attempts at amendment were made by Congressional Republicans and Southern Democrats. On balance, the amendments that Congress adopted changed the Administration's draft of the poverty bill only in minor ways.

\textsuperscript{125}Ibid., pp. 245-246.
\textsuperscript{126}Ibid., p. 247.
\textsuperscript{127}Ibid., p. 245.
Representative Peter Freylinghuysen, the ranking Republican on the House Education and Labor Committee, introduced the Republican substitute on April 28, 1964. During floor debate on August 8, Freylinghuysen's motion to recommit the Administration's bill with instructions to report out the Republican version was defeated on a party line roll call vote of 295-177.\textsuperscript{128}

The modification function was also performed by the House Labor and Education Committee, particularly its Democratic members meeting in caucus. The Administration's version prohibited aid to sectarian religious schools under the community action program, but at the same time permitted children in such schools to receive benefits under these programs in the public schools by means of a "shared time" arrangement. This method was unacceptable to Brooklyn Democrat Hugh Carey and House Democrats agreed to a compromise that permitted aid to parochial schools for nonsectarian "remedial noncurricular" programs. The committee omitted the title IV provision for incentive loans for businessmen to hire the hard core unemployed and added a program to title II for adult literacy education and a program to title III to aid migrant workers. Furthermore, upon the insistence of Democratic Representative Edith Green, the committee provided that the Job Corps would be

\textsuperscript{128}Ibid., p. 247.
open to women as well as men. Finally, as a minor concession to Republicans and Southern Democrats, the committee agreed to a formula for allocating funds among states for certain programs and to a requirement that the OEO utilize existing agencies wherever possible.  

Amendments were also made in the Senate in committee and on the floor. The committee adopted Senator Jacob Javits' amendment to permit federal aid to state Job Corps camps, an amendment that tightened the House provisions governing aid to local groups in the absence of community-wide anti-poverty plans, and Senator Barry Goldwater's amendment that provided a formula for resolving the church-state controversy, which was retained in the final act.  

On the Senate floor, debate and proposed amendments centered on the states' rights issue and the agricultural programs contained in the Administration's draft of the poverty bill. In several close roll calls, the bills' supporters defeated amendments to require gubernatorial approval of all poverty programs in each state. However, Senator Pat McNamara, the bill's sponsor, did accept two compromise amendments (which were included in the final act)

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129Ibid., pp. 242-243. This last move did not seem to have had much impact on committee Republicans, for they all voted against the bill, claiming that none of their amendments had been accepted. Ibid., p. 243.

130Ibid., pp. 244-245.
bill) offered by Senator George Smathers that provided for gubernatorial vetoes of Job Corps camps and of contracts with private agencies. By a 49-43 vote, which Bibby and Davidson claim constituted the Administration's only real defeat in the Senate, the Senate accepted Senator Frank Lauche's amendment that eliminated the bill's "socialistic" farm development corporation provision. In a move endorsed by the bill's sponsor, the Senate eliminated the provision of title III that authorized direct loans to poverty-stricken farm families and substituted instead a loan program offered by Majority Whip Hubert Humphrey.131

In order to avoid a conference with the Senate, Landrum substituted an amended version of the Senate passed bill for the committee bill. During floor debate, the House accepted the Senate's amendments regarding the gubernatorial veto. It also adopted an amendment requiring loyalty oaths or disclaimer affidavits of all aid recipients offered by Democratic Representative John Bell Williams of Mississippi. Finally, it adopted Republican amendments to prevent soliciting aid recipients for political contributions and a "conservationist" amendment to require the assignment of at least forty per cent of the Job Corps enrollees to conservation camps.132

131Ibid., p. 245.
132Ibid., p. 247.
Taken together, these amendments do not constitute a major alteration in the President's program. In the view of Bibby and Davidson, perhaps the most significant Congressional contribution was the addition of three new programs--aid for migrants, adult literacy program, and an unrelated rider compensating dairy farmers for milk removed from the market because of pesticide contamination. Of course, the Congress did eliminate two proposals--the business incentive loan program and the farm land development corporation proposals. Other amendments were related to some traditional political concerns of Congress--aid to church related schools, the inclusion of women, solicitation of funds for partisan gain, and national loyalty.\textsuperscript{133}

\textbf{Representation}

The representation function was performed mainly by various intellectuals and experts, the established departments, the President, and Congressional Republicans. One of the significant aspects of the making of the poverty policy was that intellectuals and experts concerned with the problems of poverty--such as the staff of the President's Committee on Juvenile Delinquency and the staff of the Ford Foundation--functioned as representatives of the poor. Because of its concern for economic growth and

\textsuperscript{133}Ibid., p. 248.
unemployment and its consequent analysis of the dimensions of poverty that were unaffected by the aggregate fiscal measures, the members and staff of the Council of Economic Advisers also served as representatives of the poor.

Once the decision was made to formulate a poverty bill, representatives of established departments and agencies also performed the representation function as they represented the views of their agencies and their clientele groups in the formulation of the poverty bill. They tried to have the bill include provisions of traditional concern to their agencies or clienteles.

The President also served as a representative of the poor. President Kennedy was influenced to perform this role by his experiences in West Virginia, the poverty literature, and the failure of his previous aggregate economic policies to solve the problems of poverty. President Johnson also believed he had a special responsibility to represent the disadvantaged. He sought to complete what he took to be the unfinished business of the New Deal.

Finally, in opposing the Administration's poverty bill, Republicans in Congress were representing the views of their constituents.

Prescription

The poverty bill was prescribed jointly by Congress and the President. The Senate passed the poverty act on
July 23, 1964, by a vote of 61-34. The bill was supported by every voting Northern Democrat with the exception of Senator Frank Lauche of Ohio. Southern Democrats evenly split and ten Republicans voted for the bill.\textsuperscript{134} The House passed the bill on August 8 by a vote of 226 to 185. The bill's supporters included 144 Northern and Western Democrats, 60 (out of 100) Southern Democrats, and 22 Republicans (20 of whom were from the Northeast).\textsuperscript{135} President Johnson signed the bill into law on August 20, 1964.

Conclusions

The President played an important role in performing the following functions: initiation of the issue, definition of the issue, communications, mobilization, representation, and prescription. President Kennedy was instrumental in initiating the issue as a political issue. President Johnson defined the issue as a \textit{war} on poverty and played an important part in mobilizing support for the bill. Without Kennedy's interest, the idea for such a program might not have been accepted within the Executive branch. Without Johnson's interest and support, the bill could not have been formulated or passed. President Kennedy was attracted to the poverty issue by the literature on poverty

\textsuperscript{134}Ibid., p. 245.

\textsuperscript{135}Sundquist, \textit{op. cit.}, p. 149.
and as a result of the failure of his aggregate economic policies to reach the poor. Upon learning of the plans for a poverty program when he took office, President Johnson reacted favorably and encouraged the formulation of such a program. He was partially motivated by a desire for a program that would distinguish his Administration from Kennedy's.

As with the other cases studied, the Council of Economic Advisers also performed several functions in the policy process--initiation, definition of the issue, formulation, communication, and representation. The Council's economic expertise well qualified it for the functions of initiation and definition of the issue. President Kennedy instructed the Council to study the extent and nature of poverty. These studies helped make poverty a political issue first within the Administration and later among other participants. It is perhaps somewhat unusual for the Council to have had such an important role in actually formulating the bill. But the attack on poverty was a new issue that could not be easily assigned to one of the existing agencies. As part of its definition of the issue, the CEA adopted the notion of community action as the appropriate type of general response to the problem and tried to formulate the poverty program around it.

The manner in which the functions of initiation,
definition of the issue and formulation were performed deserves special comment. Writers such as Michael Harrington played an important role in raising poverty as a political issue. Of course, once these writers had raised the issue, the President and the CEA were helpful in making poverty a subject for political consideration. Participants' definition of the issue was influenced by their thinking about past policies. Participants were also able to perceive a persistent poverty problem in the aftermath of the Administration's aggregate fiscal policies. In addition, the important role of various professionals, as opposed to politicians, in defining the issue of poverty is significant. Lowi's discussion of interest group liberalism suggests the influence of the reigning ideology on the definition of the poverty issue. Finally, President Johnson's style and rhetoric of a war on poverty influenced the definition of the issue.

The CEA and Budget Bureau were unable to formulate a poverty program consisting entirely of the community action approach in the face of the opposition of the established agencies, led by Wirtz. The established agencies' views on what should constitute the poverty program were influenced by their own traditional agency concerns and those of their clienteles. For example, Wirtz unsuccessfully advocated a major job creation program. The established
agencies were able to force Presidential interference (in the form of the Shriver Task Force) in the formulation of the bill. They were strong enough to prevent the bill from consisting entirely of the new community action concept. But they were not able to remove that concept entirely from the bill; neither were they able to include all the programs that they wanted or to eliminate the OEO as coordinator of the program.

In some ways, the policy process by which the poverty bill was adopted resembles the Lindblom-Hilsman view of policy-making. The bill as finally formulated by the Administration represented a compromise of various proposals put forth by several agencies. Compromises were also worked out that divided the administration of certain programs among the OEO and the cabinet agencies. In Congress, efforts were made to obtain Southern support for the bill. But clearly, not all interests were regarded as worthy of compromise, for the President decided to base the support for the bill on the Democratic Party and so did not compromise with the Republicans.

This process also involved a very large role for the President. He was instrumental in making poverty an issue for political consideration. The President also stepped into the process of formulating the bill and established the Shriver Task Force to settle a deadlock that was
appearing. The Shriver Task Force could use the authority of the President to settle disputes. Even so, the President had to intervene directly in some cases.

Another important aspect of this process was the role of ideology. Lowi explains the influence of interest-group liberalism on most of the participants. This ideology influenced how they perceived the problem and the kind of response they formulated. In his view, they gave a traditional response to a new kind of problem.

The personal ideologies of major participants are also relevant. President Kennedy took office intending to stimulate economic growth. His efforts in this direction did not seem to be eliminating all unemployment or to be getting at the poor. So his image of the President as an activist with economic goals made him receptive to an attack on poverty. President Johnson, who viewed himself as a part of the New Deal, wanted to finish the work of the New Deal. His personal experiences had influenced the formation of a personal ideology that stressed aid for the poor and disadvantaged. He believed that a President should use his office to foster programs to aid the disadvantaged. The personal ideologies of other participants were influential, too. Representatives of various agencies perceived the problem and the appropriate response in terms of their own personal ideologies which reflected the goals of their
departments and of their clienteles. Their ideologies suggested the kinds of approach to use to attack poverty. In addition, the various professionals involved in the process all had personal ideologies that suggested the role of the intellectual in policy formation and, very importantly, the role of the poor, themselves, in drawing up plans that affect themselves.

Finally, the ideology of the parties is relevant, too. The Democrats' traditional belief that the government should take action to alleviate the plight of the "have-nots" in society laid the foundation, in part at least, for the Democrats proposing this kind of a program. On the other hand, the Republicans' economic ideology would predispose them towards opposition to such a program.
CHAPTER VI

CONCLUSIONS

The application of this policy process framework to four cases of economic policy-making suggests several conclusions about the President's performance of his economic responsibilities. Summaries of the participants that performed the various functions in the four cases studied are contained in Tables 1-4.

The Performance of the Policy Process Functions

Initiation

In the two recessions studied, the Council of Economic Advisers alone performed the initiation function. Such behavior is consistent with the statutory role of the CEA laid down in the Employment Act. The Council's economic expertise and its status as a general economic adviser to the President make it well suited to the performance of this function. Both Burns and Saulnier believed that their role as CEA Chairman included a special responsibility to warn the Administration of a potential recession.

Although the CEA played a part in performing the initiation function for the poverty issue, participants outside government played a major part in raising the

406
<table>
<thead>
<tr>
<th>Proposal</th>
<th>1/1/54 Internal Acceleration of Simpson Revenue Planning Treme Revisions Works Policy Spending</th>
</tr>
</thead>
<tbody>
<tr>
<td>Function</td>
<td>1/1/54 Internal Acceleration of Simpson Revenue Planning Treme Revisions Works Policy Spending</td>
</tr>
<tr>
<td>Initiation</td>
<td>CEA</td>
</tr>
<tr>
<td>Definition of Issue</td>
<td>President CEA Chm.</td>
</tr>
<tr>
<td>Issue</td>
<td>Cabinet ABEGS Sec. Treas.</td>
</tr>
<tr>
<td>Formulation</td>
<td>CEA Chm. President Ways &amp; Means Repub- licans Congress- tional Tax experts</td>
</tr>
</tbody>
</table>
| Communication | CEA Chm. White House Staff "Fed." Chm. 
Treas. Under Sec. Folsom President |
| Acceleration of | CEA "Fed." CEA Chm. |
| Monetary Govt. | Budget CEA Chm. |
| Policy Spending | Bureau Sec. Bureau Rec- Treas. 
Trea 
lation 
Bureau Public Public Roads |
<table>
<thead>
<tr>
<th>Function</th>
<th>1/1/54</th>
<th>Internal Revenue Code Revisions</th>
<th>Planning Public Works</th>
<th>Monetary Govt. Policy Spending</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mobilization</td>
<td>(General Agree-</td>
<td>Ways &amp; Means</td>
<td>President</td>
<td>CEA Chm.</td>
</tr>
<tr>
<td>c</td>
<td>ment)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Modification</td>
<td>no attempts</td>
<td>Democrats House fail</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>GOP Senate succeed</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Representation</td>
<td>Union leaders</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Dem. leaders</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>GOP Congressional leaders</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>President</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Sec. Treas.</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
TABLE 1 - Continued

FUNCTIONS PERFORMED BY PARTICIPANTS DURING THE 1954 RECESSION

<table>
<thead>
<tr>
<th>Proposal</th>
<th>1/1/54</th>
<th>Internal Revenue</th>
<th>Planning</th>
<th>Acceleration of Govt. Spending</th>
</tr>
</thead>
<tbody>
<tr>
<td>Function</td>
<td>1/1/54</td>
<td>Simpson</td>
<td>Tax</td>
<td>Code Revisions</td>
</tr>
<tr>
<td>Scheduled Tax Reductions</td>
<td></td>
<td>Tax</td>
<td>Revenue</td>
<td>Planning</td>
</tr>
<tr>
<td>Planning Public Works</td>
<td></td>
<td>Planning</td>
<td>Planning</td>
<td>Monetary Policy</td>
</tr>
<tr>
<td>Monetary Policy</td>
<td></td>
<td>Planning</td>
<td>Planning</td>
<td>Monetary Policy</td>
</tr>
<tr>
<td>President</td>
<td></td>
<td>President</td>
<td>President</td>
<td>President</td>
</tr>
<tr>
<td>Congress</td>
<td></td>
<td>President</td>
<td>President</td>
<td>President</td>
</tr>
</tbody>
</table>

\(^a\)Secretary of the Treasury Humphrey and Vice President Nixon had suggested the idea of accelerating government spending before CEA Chairman Burns had actually formulated such a program.

\(^b\)The CEA Chairman used the Cabinet and ABEGS as forums for performing the communications functions.

\(^c\)Union and Democratic leaders mobilized opposition to the Administration proposals, contending they were inadequate.
### TABLE 2
FUNCTIONS PERFORMED BY PARTICIPANTS DURING THE 1958 RECESSION

<table>
<thead>
<tr>
<th>Function</th>
<th>Monetary Policy</th>
<th>Fiscal 1959 Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>&quot;Fed.&quot; Emergency Policy</td>
<td>Spending &amp; Revenue Levels</td>
</tr>
<tr>
<td></td>
<td>Housing Bill</td>
<td>Tax Reduction</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Proposal</th>
<th>Initiation</th>
<th>Definition of Issue</th>
<th>Formulation</th>
<th>Communication</th>
<th>Mobilization</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>CEA Chm.</td>
<td>President</td>
<td>&quot;Fed.&quot;</td>
<td>President</td>
<td>Participants vary with issue</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Special Assistant to President</td>
<td></td>
<td></td>
<td>President</td>
</tr>
<tr>
<td></td>
<td></td>
<td>&quot;Fed.&quot; Chm.</td>
<td>CEA Chm.</td>
<td></td>
<td>CEA Chm.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Sen. Douglas</td>
<td></td>
<td>Support:</td>
</tr>
</tbody>
</table>

- **Support:** Dems., unions, bus. groups
- **Opposition:** Sec. Treas., Speaker, Sen. Maj. Leader

Note: a, b, c refer to specific roles or titles in the context provided.
TABLE 2 - Continued
FUNCTIONS PERFORMED BY PARTICIPANTS DURING THE 1958 RECESSION

<table>
<thead>
<tr>
<th>Proposal</th>
<th>Monetary Policy</th>
<th>Fiscal 1959 Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>&quot;Fed.&quot; Emergency Policy</td>
<td>Spending &amp; Revenue Levels</td>
</tr>
<tr>
<td></td>
<td>Housing Bill</td>
<td>Tax Reduction</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Function</th>
<th>Sen. Banking Committee Sen. Floor</th>
<th>Congress &amp; President</th>
<th>Congress &amp; President</th>
</tr>
</thead>
<tbody>
<tr>
<td>Modification</td>
<td>Congress</td>
<td>&quot;Fed.&quot;</td>
<td>President</td>
</tr>
<tr>
<td>Representation</td>
<td>Dem. Interest grp. lead. State &amp; National Officials</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Prescription</td>
<td></td>
<td>&quot;Fed.&quot; Congress &amp; President</td>
<td>President</td>
</tr>
<tr>
<td>Veto</td>
<td></td>
<td></td>
<td>Senate</td>
</tr>
</tbody>
</table>
TABLE 2 - Continued

FUNCTIONS PERFORMED BY PARTICIPANTS DURING THE 1958 RECESSION

<table>
<thead>
<tr>
<th>Function</th>
<th>Omnibus Housing Bill</th>
<th>Two Farm Price Freeze Res.</th>
<th>1958 Highway Act</th>
<th>Rivers &amp; Harbors</th>
<th>Airport Construct. Grants</th>
<th>Communities Facilities Bill</th>
</tr>
</thead>
</table>
TABLE 2 - Continued

FUNCTIONS PERFORMED BY PARTICIPANTS DURING THE 1958 RECESSION

Proposals for Increased Spending

<table>
<thead>
<tr>
<th>Function</th>
<th>Omnibus Housing Bill</th>
<th>Two Farm Price Freeze Res. 1958 Highway Act</th>
<th>Rivers &amp; Harbors</th>
<th>Airport Construct. Grants</th>
<th>Communities Facilities Bill</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prescription</td>
<td>Congress &amp; President</td>
<td>Congress &amp; President (second bill)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Veto</td>
<td>House-President (general farm)</td>
<td>Senate (dairy farm)</td>
<td>President (first bill)</td>
<td>President House</td>
<td></td>
</tr>
</tbody>
</table>
### TABLE 2 - Continued

**FUNCTIONS PERFORMED BY PARTICIPANTS DURING THE 1958 RECESSION**

<table>
<thead>
<tr>
<th>Proposal</th>
<th>Extension of Unemployment Compensation</th>
<th>Acceleration of Scheduled Projects</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Function</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Formulation</td>
<td>President(^f)</td>
<td>Congress</td>
</tr>
<tr>
<td></td>
<td>Congressional Democrats</td>
<td>President</td>
</tr>
<tr>
<td>Mobilization</td>
<td>Support: Pres., Sec. Labor</td>
<td>(Wide support)</td>
</tr>
<tr>
<td></td>
<td>Opposition: Business groups, Southerners, Democrats, unions</td>
<td>Senate Majority Leader</td>
</tr>
<tr>
<td>Modification</td>
<td>House Democratic Leadership</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Ways &amp; Means Committee</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Senate Democratic Leadership</td>
<td></td>
</tr>
<tr>
<td>Prescription</td>
<td>Congress and President</td>
<td>President</td>
</tr>
</tbody>
</table>

\(^a\)Some functions (e.g., initiation, definition of the issue, communication, representation) that relate more to the entire process than to a particular proposal are listed only once in this table, rather than repeated for all of the proposals. The veto function is listed only when the proposal listed was in fact vetoed.

\(^b\)Gabriel Hauge

\(^c\)Including the Secretary of the Treasury, Federal Reserve Board Chairman, CEA Chairman and Special Assistant to the President Gabriel Hauge.

\(^d\)The President mobilized opposition to major public works measures.

\(^e\)Interest groups of state and local highway officials.

\(^f\)The President and Congressional Democrats formulated different plans to extend unemployment compensation.
# TABLE 3
FUNCTIONS PERFORMED BY PARTICIPANTS IN THE FORMULATION AND ADOPTION OF THE 1964 TAX REDUCTION

<table>
<thead>
<tr>
<th>Function</th>
<th>Initiation</th>
<th>Definition of Issue</th>
<th>Formulation</th>
<th>Communications</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Kennedy as Presidential candidate</td>
<td>President</td>
<td>Treasury Department</td>
<td>President</td>
</tr>
<tr>
<td></td>
<td>Parties</td>
<td>CEA Chairman</td>
<td>Cabinet Committee on Economic Growth</td>
<td>CEA Chairman</td>
</tr>
<tr>
<td></td>
<td>Interest Groups</td>
<td>Treasury Secretary</td>
<td>Pres. &amp; his political &amp; economic advisers(^a)</td>
<td>Cabinet Committee on Economic Growth</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Treasury, Budget Bureau, and CEA officials</td>
<td>وارکسیه ی کابینت</td>
<td>Troika</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Quadriad</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Harris Treasury Consultants</td>
</tr>
<tr>
<td>Mobilization</td>
<td>Support:</td>
<td>Opposition:</td>
<td>Treasury &amp; Ways &amp; Means</td>
<td>attempts made:</td>
</tr>
<tr>
<td></td>
<td>President</td>
<td>Conservative GOP &amp;</td>
<td>Ways &amp; Means Chm.</td>
<td>House GOP Recommital</td>
</tr>
<tr>
<td></td>
<td>Sec. of Treasury</td>
<td>Democratic House</td>
<td>Ways &amp; Means Maj.</td>
<td>motion</td>
</tr>
<tr>
<td></td>
<td>CEA Chairman</td>
<td>members</td>
<td>Senate Maj. Report</td>
<td>Senate Floor</td>
</tr>
<tr>
<td></td>
<td>Under Sec. Treasury</td>
<td></td>
<td>Sen. Russell Long</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Ways &amp; Means Chm.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Ways &amp; Means Maj.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Senate Maj. Report</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Sen. Russell Long</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Modification</td>
<td>Treasury &amp; Ways &amp; Means</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Senate Finance</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Representation</td>
<td>President</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Treasury</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Interest Groups</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Prescription</td>
<td>President and Congress</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

\(^a\)These advisers included the CEA Chairman, the Budget Director, Fowler and Surrey from the Treasury, and Sorensen, O'Brien and Feldman from the White House Staff.
### TABLE 4

**FUNCTIONS PERFORMED BY PARTICIPANTS IN THE FORMULATION AND ADOPTION OF THE POVERTY ACT**

<table>
<thead>
<tr>
<th>Functions</th>
<th>Public officials</th>
<th>Writers</th>
<th>President and CEA</th>
<th>Interagency Staff Group</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Initiation</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Definition of Issue</strong></td>
<td>Staff of Pres. Committee on Juvenile Delinquency</td>
<td>President</td>
<td>Budget Bureau and CEA</td>
<td>Professionals</td>
</tr>
<tr>
<td><strong>Formulation</strong></td>
<td>CEA</td>
<td>Budget Bureau</td>
<td>Cabinet Departments</td>
<td>Shriver Task Force</td>
</tr>
<tr>
<td><strong>Communication</strong></td>
<td>Writers and professionals in and out of govt.</td>
<td>CEA</td>
<td>President</td>
<td></td>
</tr>
<tr>
<td><strong>Mobilization</strong></td>
<td>Support:  President</td>
<td>Opposition: House Republicans</td>
<td>Rules Comm. Chairman Smith</td>
<td></td>
</tr>
<tr>
<td><strong>Modification</strong></td>
<td>Most attempts by Cong. GOP and Southern Dem.</td>
<td>House Ed. &amp; Labor Comm. (Dem. mem. meeting</td>
<td>Senate Committee</td>
<td>Senate Floor</td>
</tr>
<tr>
<td><strong>Representation</strong></td>
<td>Various professionals and experts&lt;sup&gt;a&lt;/sup&gt;</td>
<td>Established Departments</td>
<td>President</td>
<td>Congressional Republicans</td>
</tr>
<tr>
<td><strong>Prescription</strong></td>
<td>Congress and President jointly</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<sup>a</sup>Staffs of President's Committee on Juvenile Delinquency, Ford Foundation and CEA members and staff.
issues of economic growth and poverty as subjects of political discussion. Thus, as a Presidential candidate in 1960, John F. Kennedy took an important part in raising the issue of economic growth as a matter for political consideration. And writers such as Michael Harrington played a significant role in raising the poverty problem as a political issue. While the CEA may be expected to call attention to economic problems that the government had already dealt with, evidently participants outside of government are more likely to raise issues that call for new policy departures. Problems requiring policies that constitute an increase in the government's economic responsibilities are more likely to be raised as political issues by participants outside of government.

Definition of the issue

In all four cases, the definition of the issue function was performed by the President and his major economic advisers, who included the CEA Chairman and usually the Secretary of the Treasury. During the recessions, special groups of advisers (e.g., ABEGS) that were established to advise the President, helped define the issue. A participant's definition of the issue appears to have been influenced to some extent by his personal ideology and agency's interest. The Council and its chairman tended to advocate an activist definition of the issue, although during the
1958 recession, Chairman Saulnier's definition of the issue might be described as less activist than that of Democratic Congressional participants who thought particular fiscal measures were required. The Treasury Secretary generally supported a definition that implied more restraint. Perhaps because no taxes were directly involved, the Secretary of the Treasury did not take part in defining the poverty issue; he was, however, an important participant in performing this function in the three other cases. Professional experts, in and out of government, played an important role in defining the poverty issue.

**Formulation**

In various cases, the CEA Chairman, the Treasury Department, Congressional participants, the Budget Bureau, groups of officials, and the Federal Reserve Board had a role in performing the formulation function. During the 1954 recession, CEA Chairman Burns had a key role in formulating responses, some of which Treasury Secretary Humphrey was, initially at least, reluctant to support. Most of the Burns proposals involved no new legislative requests; rather he formulated already scheduled tax measures as countercyclical proposals and suggested accelerating scheduled expenditures. The Ways and Means Committee, which formulated the Simpson bill for excise tax reduction, and the Federal Reserve Board, which formulated an easier monetary policy, also performed the formulation function.
during this recession. In the 1958 recession, CEA Chairman Saulnier, the Federal Reserve Board, and the President formulated responses supported by the Administration. But during this recession, Congressional Democrats, now in the majority, formulated proposals for increased spending that were opposed by the Administration.

Three major sets of participants shared in the formulation of the President's tax proposal that resulted in the tax cut of 1964. The Treasury Department contributed the reform components, the Cabinet Committee on Economic Growth, chaired by Heller, focused on tax reduction, and finally the President together with his major economic and political advisers composed the final draft of the proposals, taking into account the views of Ways and Means Chairman Mills and other Congressional participants. The CEA, the Budget Bureau, the traditional cabinet departments, the Shriver Task Force, and the President had important roles in formulating the poverty proposals.

Congressional participation in formulation was strongest during the 1958 recession when the Democrats controlled Congress and the Republicans the White House. Congressional involvement in formulation in this case may be attributed to: (1) a Democratic desire to make a record in anticipation of the 1960 Presidential election; (2) Democratic sensitivity to the plight of the unemployed; and (3) the Democratic Party's economic ideology, which called
for fiscal remedies more rapidly than did the Republicans. Democratic control of Congress made it easier for Democrats to formulate proposals that would have some chance of serious consideration. Congressional participants played no direct or immediate role in the formulation of either of the two more innovative policies studied.

Presidential involvement in the formulation of the two innovative policies studied took the form of the creation of a special group to resolve differences within the Administration on what the proposal should contain. The President himself was part of such a group in formulating the tax proposals. With regard to the poverty proposal, the President appointed the Shriver Task Force to resolve differences between the CEA and Budget Bureau, on the one hand, and the traditional cabinet departments, on the other hand. Presidential involvement in formulating these innovative policies should be contrasted with the relative non-involvement of Presidents in formulating responses to the recessions. Perhaps there is agreement for non-innovative policies on which participants should formulate proposals, but the lack of such an agreement in innovative situations requires Presidential intervention.

Communications

The President, various combinations of his advisers, and participants outside government tended to perform the
communications functions. The President's strong bargaining position and his unequalled access to the communications media make him well suited for transmitting information. Various groups of Presidential advisers, such as the CEA Chairman, the Treasury Secretary, the Federal Reserve Board Chairman and Gabriel Hauge, ABEGS and the Cabinet Committee on Economic Growth, provided a forum for communicating throughout the Administration information on a problem and on a proposed solution. The CEA Chairman played an important part in such groups in conveying information about economic problems and the proposed solutions. Participants outside government (e.g., Seymour Harris' board of Treasury consultants on the problem of economic growth and the writers of the poverty literature) were active in communicating information about the innovative policies.

**Mobilization**

In the cases studied, participants tend to have a part in mobilizing support for the proposals they formulated. Once convinced of a particular program, the President was also likely to play a role in mobilizing support for it. He was usually able to obtain the support of key members of his party in Congress. Of course, support for some proposals was so extensive that no great need existed for mobilizing support. Interest groups also appeared to play an important role in mobilizing opposition.
Mobilization attempts had important partisan tones. Members of the party opposing the President tended to be the participants that mobilized opposition to proposals put forth by the President. While present in all four cases, the opposition party was particularly active in mobilizing opposition to the more innovative policies.

During the 1954 recession, support for certain measures was so great that there seemed no great need for mobilization of support. The President performed the mobilization function with regard to public works planning. Ways and Means Committee Republicans mobilized support for the Simpson bill, and Burns sought support for monetary policy. Interest groups, particularly unions, and Democratic leaders mobilized opposition on the grounds that the Administration's response to the recession was inadequate.

Participants performing the mobilization function during the 1958 recession seemed to vary with the issue. Within the Administration, Saulnier mobilized support for counter-recessionary proposals and Treasury Secretary Anderson mobilized opposition, particularly with regard to the tax cuts. Secretary Anderson's agreement with Speaker Sam Rayburn and Majority Leader Lyndon Johnson constituted an important attempt at mobilizing opposition to any tax reduction proposals. Saulnier and Eisenhower, once he was convinced, played an important role in mobilizing support for monetary policy. Eisenhower also played an important
role in mobilizing opposition to major public works projects, which he regarded as premature and wasteful. Democratic sponsors of proposed fiscal measures or the committees dealing with them mobilized support for them. No mobilization was needed for the Emergency Housing bill. Other participants that mobilized opposition to some proposals were Republican members of Congress, some business groups, and Southern Democrats.

The major participants that mobilized support for the 1964 tax cut included the President, his major economic advisers, Chairman Wilbur Mills and the Ways and Means Committee majority, and Senator Russell Long and the Senate Finance Committee majority. Participants mobilizing opposition included House Republicans and Democrats concerned with deficit financing, the Ways and Means Committee minority, and Senate Finance Committee Chairman Byrd. With regard to the poverty bill, the President mobilized support and House Republicans and Rules Committee Chairman Smith tried to mobilize opposition.

Modification

Congressional participants, either in committee or on the floor, made most of the attempts at modification in the cases studied. In many, although by no means all, cases modification attempts were made by members of the party opposite that of the sponsor.
Representation

The President, various Administration participants, interest groups, professionals, and Congressional participants performed the function of representation. The President's performance of this function can perhaps be explained by electoral considerations, his conception of his office, and his ideology. Many executive branch participants represented the views of their traditional clientele groups. Among interest groups, unions and business groups were particularly active. With regard to the poverty issue, professionals viewed themselves as the representatives of the disadvantaged segments of society. And Congressional participants represented the views of their constituents.

Prescription

In the cases studied, the prescription function was performed most frequently by the President and Congress jointly. However, in some cases, the President and, with regard to monetary policy, the Federal Reserve Board each alone performed this function.

Veto

The veto function, which was performed only in the case of the 1958 recession, was performed by the President or by either house of Congress.
Participants and Functions: Patterns in the Performance of Functions

The functions performed by the major participants in the cases studied constitute patterns of behavior that are relevant for an understanding of the President's role in economic policy-making. They suggest the way in which the President meets his economic responsibilities, the assistance he receives as well as the opposition he encounters.

Patterns of Presidential behavior

Three patterns are discernable in the President's performance of functions in the policy process. These patterns are based on the consistency with which the President performed a function and his strength in performing the function. The President had a consistent and strong role in performing one large set of functions, an intermittent and moderate role in performing a second and much smaller set of functions, and did not perform or only rarely performed a third set of functions.

The President had a strong and consistent role in performing the functions of definition of the issue, communications, representation, and prescription. In all four cases, the President consistently and strongly performed the definition of the issue, communications, and representation functions. Except for those few instances in which the Federal Reserve Board prescribed monetary policy, he also performed the prescription function, usually with
Congress, but alone on those few occasions where he had the legal authority. All Presidents, without regard to party or particular incumbent, performed these functions.

The President played a moderate and intermittent role in the performance of the mobilization, formulation, and veto functions. The President played the mobilization function for only a part of the policies formulated during the recessions, but played a relatively strong role in mobilizing support for the more innovative policies. The President was not strongly involved in formulating responses to the recessions, but played an important, if limited, role in the formulation of the more innovative policies. The veto function was performed only during the 1958 recession. Except for those few instances when Congress vetoed, the President performed this function.

The President either did not perform or only rarely performed the modification and initiation functions. When the President was active in initiation, it was with respect to the more innovative policies. In the case of the economic growth issue, an individual who later became President performed the initiation function as a Presidential candidate.

Regardless of party or incumbent, Presidents tended to perform the functions in the first category. What explains why only some Presidents performed the other functions? The innovative quality of a policy seems relevant
for explaining Presidential activity in the formulation and initiation functions. And perhaps only Presidents with a certain type of ideology will advocate innovative economic policies. The President seems to have performed the mobilization function for only some of the policies formulated during the recession, but to have played a rather strong role in mobilizing support for the innovative policies.

It is significant that all the Presidents studied exercised their economic responsibilities by performing the same large set of functions in the policy process. But, Presidents may perform the same functions yet still deal with different kinds of policies. In exercising his economic responsibilities, President Eisenhower responded cautiously to recessionary conditions, especially during the second one. While initially reluctant, compared to Eisenhower, Kennedy and Johnson were active in advancing innovative policies.

Patterns of CEA behavior

The CEA, especially its Chairman, consistently and strongly performed the following set of functions: initiation; definition of the issue; formulation (except for the 1958 recession); communication; and mobilization. The Council's economic expertise was particularly useful in the performance of these functions. Lacking a power base comparable to other participants, the Council relied on its economic expertise. The CEA Chairman's conception of his
own role and his ideology included the notion that he perform at least some of these functions. For example, both Council chairmen under Eisenhower believed their role included the responsibility to warn of recession and to propose appropriate responses. Their ideologies influenced the kinds of proposed responses they suggested. An important feature of the CEA's behavior was its performance of the initiation function, of which it was the sole performer during the two recessions.

Although the various Councils differed in their recommendations, in all the cases studied, the CEA tended to assume an activist stance within the Administration in performing the initiation, definition of the issue, and formulation functions. Particularly in the recessions, the CEA was the first participant to call attention to the problem and to advocate action. For the two more innovative policies, the Council was also active in the early stages of the process.

Patterns of Treasury behavior

The functions the Secretary of the Treasury performed may be divided into two categories--those the Treasury had a strong and consistent role in performing and those that it had only a moderate and somewhat intermittent role in performing. The definition of the issue and representation functions fall into the first category. The
Treasury Secretary played a role in defining the issue in all the cases studied except the poverty issue, in which no tax measure was directly involved. In defining the issue, the Treasury Secretary was generally on the side of restraint, frequently opposing the definition and programs espoused by the CEA Chairman, or at least desirous of modifying them. In performing the representation function, the Treasury represented the views and interests of the banking community in the policy process.

The Secretary of the Treasury had a moderate and intermittent role in performing the formulation, communications, and mobilization functions. The Treasury had a particularly important role in formulating the Administration's tax measures. In performing the communications function, the Secretary often acted as one member of the various groupings of Presidential advisers and was himself a frequent target of messages, especially from the CEA Chairman.

Patterns of behavior for special groupings of Presidential advisers

Various groupings of Presidential advisers (e.g., ABEGS, the Cabinet Committee on Economic Growth) regularly performed the definition of the issue, formulation, and communications functions. Such groups seemed necessary in the formulation of the innovative policies—the tax cut and the poverty act—in order to overcome disagreement among
various Administration participants. These groups seemed particularly well suited for performing the communications functions.

**Patterns of Congressional behavior**

Congressional participants rather strongly and consistently performed the modification, prescription, and representation functions. The performance of the modification function was done almost exclusively by Congressional participants. Congressional participants moderately or weakly performed the formulation and mobilization functions. The most extensive Congressional participation in the formulation function occurred during the recession of 1958 when the Democrats controlled Congress and Republicans controlled the White House.

**Patterns of behavior and the President's economic responsibility**

The large number of functions that all Presidents tended to perform suggests that to the extent that performance of functions in the policy process is an indicator of Presidential economic responsibilities, all Presidents studied seemed to have a similar understanding of their responsibilities in this regard. It seems that no President can refuse to participate in the economic policy-making process. Yet, the President's economic responsibilities entail more than just performing a certain set of functions
in the policy process, for Presidents defined the issues differently and advocated different responses to the issues.

Many of the functions the President typically performed can be related either to communications or to his legal authority. The President's legal authority to prescribe and veto is, of course, involved in his exercise of his economic responsibilities. The President is well suited to perform functions related to communications because of his place in the political system and his unequaled access to the news media. In addition, the President's bargaining advantage perhaps explains his performance of the mobilization function. If a President is held responsible for the economy and is expected to propose programs, it is likely that he will take an interest in trying to see that they are carried out.

At the beginning of this dissertation, I suggested that the definition of the issue function was a particularly important function and that the President was likely to perform it. In all the cases studied, the President did, in fact, perform this function. In order to meet his economic responsibilities, the President is required to define economic issues, relate them to past policies, and suggest or accept suggestions for various types of appropriate responses. The President's definition of the issue was the controlling version for participants within the
Administration. In the two recessions, no major action was taken by the Administration until the President defined the issue as a recession requiring governmental action. The cases of the tax cut and the poverty issues illustrate the power of the President's definition. The tax cut or poverty act probably could not have been adopted had not the President defined the issue. While a President may not be able to define the issue as freely as he might wish (e.g., Kennedy believed he could not define the issue solely as chronically weak economic growth, but had to raise the specter of a recession), his definition still has great influence on the formulation of a proposal and its likelihood of being adopted. This function was performed over time. This is significant because the type of policy the Administration proposed depended upon the way in which the issue was defined. These cases suggest that the President is subjected to varied influences (most commonly his CEA Chairman and Treasury Secretary) in defining the issue. The CEA Chairman generally appears to look out for the President's economic responsibilities in recessions and, at least under the Democrats, stands ready to assist in their expansion.

These patterns of behavior suggest that the President met his economic responsibilities by direct participation in formulation only in the case of the more innovative policies. In dealing with recessions, a more established responsibility of the government, other participants were able to
draw up proposals without the need of direct Presidential involvement. In a similar vein, the President was involved in the initiation function only in the case of the innovative policies, and in one of the cases, the involvement was by Kennedy as a Presidential candidate, before he had even taken office. In the more traditional cases of responding to recessions, the CEA performed the initiation role. Thus, a degree of Presidential involvement in the performance of the initiation and formulation functions appears necessary in those cases where new responsibilities are being added to the President's economic responsibilities.

These patterns also suggest that personal and party ideology influenced the manner in which various Presidents performed their functions. Eisenhower's personal ideology, which was reflected or reinforced by the Republican Party ideology, limited the kinds of programs he would seriously consider as responses to a recession. He believed that major increases in spending, particularly for public works, were wasteful, untimely, and ineffective, and strongly opposed them. He was more inclined to rely on monetary policy, tax reductions already on the policy agenda and the acceleration of scheduled expenditures as counter-recessionary proposals. Moreover, the priority that his personal ideology and his party's ideology gave to fighting inflation affected the speed and manner of his Administration's response to a recession. John Kennedy's personal ideology had to be
changed before he would accept the rationale for the tax cut. But the Democratic Party's economic ideology, which valued low unemployment, was consistent with such a proposal as well as with the rationale for the attack on poverty.

The CEA and particularly its Chairmen were major aides to the President in implementing his economic responsibilities. Next to the President, the CEA had a part in the performance of the largest number of functions. Of all the Administration participants, the CEA Chairmen seemed uniquely sensitive to the President's economic responsibilities during recessions and to the need for action. Kennedy's Chairman appeared eager to propose responses to newly identified problems. The CEA is of great assistance to the President in the performance of his economic responsibilities, for it frequently takes the lead in identifying problems that are included in or may be added to his existing responsibility, further defines the issue, and sometimes advances solutions for them.

Personal ideology and, to an extent, party ideology influenced the kind of advice CEA Chairmen gave the President and the way in which they performed various functions. For example, Arthur Burns had well thought out views on the ineffectiveness of public works as a response to the recession. And Walter Heller's acceptance of concepts like employment gap, the restrictive impact of automatic
stabilizers on economic growth, and the full employment surplus had an important impact on how he helped the President implement his economic responsibilities.

In performing his economic responsibilities, the President tended to receive counsel of action from his CEA chairman and of restraint from his Treasury Secretary. The Treasury Secretary was not in the forefront of those seeking to increase the President's economic responsibilities. All of the Secretaries studied appeared to stress the value of preserving the stability of the dollar and of preventing inflation or a worsening in the balance of payments deficit. The Secretary may be viewed as the spokesman for an important aspect or value in the President's economic responsibility, i.e., the protection of the value of the dollar.

These patterns also suggest that Presidents found specific groupings of advisers helpful in the performance of their economic responsibilities. Such groups frequently performed the definition of the issue and communications functions. Their formation reflected a need to exchange information on a particular problem and possible responses. Participants could use such groups to seek wider acceptance of their version of the definition of the issue.

In seeking to meet his economic responsibilities, the President is likely to find Congressional participation in the performance of the modification, mobilization,
prescription, and, in some cases, formulation and veto functions. The modification function appears to have been performed almost entirely by Congressional participants in the cases studied. Presidents should anticipate at least attempts at modification from Congress. In addition, Presidents may have to resist proposals formulated by Congress.

Findings on Propositions

The first chapter suggested propositions from the policy-making literature that might be applicable to participants' behavior in the performance of specific functions in the policy process. This section discusses the findings on these propositions in the four cases examined.

Initiation

The four cases provide more support for the proposition that public officials raise issues for political consideration than for the proposition that interest groups do. Indeed, interest groups were involved in the performance of the initiation function only in the case of the economic growth issue. In 1954 and 1958, it was the CEA that first raised the issue of a recession within the Administration. Yet, there does seem to be an important dichotomy regarding the participant who raises the issue of a recession as opposed to a more innovative issue. The more innovative issues were raised by participants outside the Administration,
although generally not by interest groups. That the non-poor, e.g., the writers, raised the poverty issue can be viewed as a significant deviation from what group theory would suggest.

**Definition of the issue**

The four cases support the proposition that the President's position in the political system makes him well suited to perform the definition of the issue function. Of course, he shared the performance of this function with his important economic advisers. Yet, he was the target of their attempts to persuade, since his definition of the issue was politically binding on Administration participants and influenced the formulation of Administration proposals.

The proposition that the President and other participants tend to define responses as only incrementally different from existing policy and to contend that the proposed response serves several objectives is generally supported, with the possible exception of the Democrats during recessions. Certainly President Eisenhower and other Administration participants, who generally shared a concern that inflation might result from a non-incremental response, proceeded cautiously in defining the issue as a recession. They also defined their general response in terms of a cautious step-by-step approach which would be invoked as
conditions required. Incrementalism in defining the issue is clearly compatible with the Republican approach to countering a recession. During the two recessions, Democrats tended to define the issue as requiring a greater and more immediate response than Republicans. The 1964 tax cut was defined not solely as an instrument to stimulate economic growth, but also in the more traditional (and incremental) terms of fiscal prudence and the prevention of recession. Despite the rhetoric of an unconditional war on poverty, the response to the poverty issue was in large part defined in incremental terms. The poverty proposal included one new element (the community action program) and many of the rather traditional programs. Many agencies perceived the poverty program as an opportunity to expand their traditional concerns.

Participants also tended to define a response as serving several objectives. In the 1954 recession, scheduled tax reductions were interpreted as countercyclical measures. In 1958, Saulnier seized on increased military spending in the post-Sputnik era as a countercyclical measure. The 1964 tax cut was defined as serving several values, among them the stimulation of economic growth and the ultimate balancing of the budget. Moynihan suggests that the Budget Bureau perceived the community action feature of the poverty bill as a means of coordinating federal programs, while other participants viewed it as a way to
mobilize the poor to gain political power or as a means of developing an underdeveloped segment of America, and the Shriver Task Force adopted it as a program that would pass Congress, help win the election, and eliminate poverty.

Participants also used partisan analysis in obtaining agreement on a particular definition of the issue. For example, this concept helps explain Saulnier's behavior during the 1958 recession. Partisan analysis might be a common technique of mutual adjustment in economic policy-making because of the expertise that is required. And the CEA, whose economic expertise is its major source of influence, could be expected to employ this technique extensively.

Ideology also influenced participants' definition of the issue. President Eisenhower's ideology and that of his advisers influenced their perception of recessions as an issue and the scope of possible counter-recessionary proposals that they would advance. Ideology influenced Democratic participants to consider a different type of general response. The ideologies of the two Democratic Presidents also influenced their definition of the issues of economic growth and poverty.

These cases also supported the proposition that the views of those groups that supported the President for nomination and election will influence his definition of the issue. President Eisenhower's definition of
recessionary conditions and his willingness to respond was influenced by his perception that those who elected him must be shown that a Republican Administration could be both fiscally prudent but also effectively cope with a recession. Democratic Presidents' definition of the issues of economic growth and poverty were also influenced by the views of their supporters for the nomination and election.

Interest group liberalism influenced participants' perception of the poverty issue as well as the form of the general response. They perceived poverty as amenable to an incremental solution and avoided the establishment of clear legislative standards by means of the community action concept, which delegated policy-making and administrative responsibility to the affected groups.

Formulation

The proposition that proposals are formulated by compromise and adjustment of interests seems to hold for the two innovative policies, but not for the recessions. Kennedy's initial tax proposals took into account the views of business and labor, the CEA and Treasury, and important members of Congress. The poverty program contained programs favored by the CEA and Budget Bureau as well as by the more traditional departments. But, it appears that there was less actual compromise in the formulation of counter-recessionary proposals. Perhaps the greater
conflict in the case of innovative policies is due precisely to their newness, to participants seeking to exert claims in the formulation of that policy.

The proposition that the President plays a leading role in adjusting competing interests holds for the formulation of the innovative policies, but not for the formulation of counter-recessionary proposals. Perhaps Presidential involvement was required for the innovative policies, because, unlike the more traditional counter-recessionary policies, participants do not agree on who should formulate these policies.

Participants also tended to consider for formulation only a range of policy alternatives that was influenced by considerations of incrementalism and ideology. This paralleled the phenomena already noted in the case of definition of the issue.

Another proposition that was supported in most cases was that considerations of feasibility influenced participants' formulation of proposals. This could be clearly seen in the case of the tax reduction, where Administration participants provided cuts for business groups and consumers and included tax reform to satisfy Wilbur Mills, and in the case of the poverty program, where programs favored by various agencies were included in order to broaden the appeal of the bill. Perhaps the most significant deviation from this proposition in the cases studied concerns
Democrats who formulated some counter-recessionary proposals with apparently little concern for their chances of passage. In these cases, the participants were evidently more concerned with formulating an alternative to the Eisenhower Administration.

Formulation was also marked by participants' agreement on a policy for different reasons. For example, as mentioned in the previous section on definition of the issue, participants agreed on the community action concept for different reasons. The tax proposals of 1963-64 were viewed within the Administration as an instrument of economic stimulation to some and of tax reform to others. This could also be found in the formulation of responses to the two recessions.

The proposition that the role structure and norms of the budgetary process would make it unlikely that participants would formulate an increased spending proposal as a major response to the recessions appears to hold for the Republicans, but not necessarily for the Democrats. Yet, in the case of the Republicans, their reluctance may be due more to their own ideology than to the budgetary process. Certainly, many of the Democratic formulated counter-recessionary spending proposals may be described as incremental or as an adoption of another program for countercyclical purposes. And these programs cannot be regarded as involving major amounts for countercyclical
purposes. But, it is perhaps significant that the major spending programs, such as Fulbright's Community Facilities bill, were ultimately unsuccessful.

A final proposition that is partially supported is Lowi's proposition that peak associations and their allies in the federal bureaucracy, as spokesmen for two opposing classes, formulate redistributive issues in the executive branch. In many ways, the tax issues, both as responses to the recession and the 1964 tax cut, resemble Lowi's redistributive issue. Except for the January 1, 1954, scheduled tax reduction on which there was general agreement, Lowi's redistributive arena seems applicable to the tax policies formulated in response to the 1954 recession, for they involved dispute in which Democratic and union leaders opposed the Republican Administration on the question of which group would benefit from the cut. And in the formulation of the 1964 tax reduction, peak interest group representatives originally perceived the issue in redistributive terms and the amount of reduction agreed on by the two peak interest groups was the amount accepted by the Administration. However, there are some difficulties in applying Lowi's scheme. Particularly with regard to the 1964 tax cut, the Administration participants did not perceive the bill as a redistributive issue so much as an instrument to stimulate economic growth. And the counter-recessionary tax programs were also perceived in this
manner. While interest groups represented classes in formulation, they do not seem to have had clearly identifiable bureaucratic allies, as Lowi's proposition suggests.

Mobilization

The proposition from Hilsman that participants mobilize support by following the techniques of consensus building appears to need modification, for under some circumstances, the potential consensus is limited to members of one's own party. On many issues mobilization strategy had a partisan orientation. In particular, the mobilization of opposition to the President's program was generally party based. But, for several counter-recessionary policies, participants tried to build a consensus across party lines. Northern Democrats and Republicans tried to obtain the support of Southern Democrats. But for some counter-recessionary policies, party was an important limiting factor.

These cases also supported the proposition that participants used partisan analysis in performing the mobilization function. Participants would try to show how a particular policy served several objectives. So, for example, Wilbur Mills could argue that the 1964 tax cut was a way to avoid increased federal spending.

These cases also supported the proposition that participants form alliances in order to mobilize support. Most of the cases involved coalition support in the form of
an alliance, i.e., groups supporting a proposal because it is substantially related to their own interests, rather than in the form of logrolling. Several proposals, e.g., the 1964 tax bill and the poverty proposals, were formulated in a way to include provisions desired by several groups.

A final proposition that public officials may mobilize support by motivating interest group leaders was supported by several of the cases. During recessions, several public officials, including the President, sought the support of various groups for their policies. With regard to the 1964 tax cut, Treasury officials even helped form two groups to lobby for the tax reduction.

**Representation**

All four cases supported the proposition that interest groups and governmental agencies represented the views of their members or clientele groups in the policy process. In particular, Presidents tended to represent the views of groups that supported them for nomination and election. Finally, peak interest groups represented the views of classes in the issues that have been tentatively identified as redistributive, although there does not appear to have been a parallel division in the federal bureaucracy.
Utility of Framework for Future Research

The application of this framework to four cases has produced a set of findings on propositions taken from policy-making literature as well as a body of findings generated by the framework itself. In the present study, four cases were examined in some depth in order to study the President's behavior in the policy process. In order to understand more fully the President's role in the policy-making process in meeting his economic responsibilities, it would be useful to apply the framework to other cases from different Administrations. A study of the Family Assistance Plan advanced by the Nixon Administration would be helpful in determining whether the President's ideology or the innovative nature of the policy is the key factor in influencing the President to play a role in the initiation and formulation functions. If President Nixon with his Republican economic ideology performed the initiation and formulation functions in this case, the proposition that it is the innovative quality of the policy that is determining would be substantiated. In order to obtain a fuller understanding of the influence of party and ideology on Presidential behavior in making policies dealing with aggregate demand, the framework could also be applied to the following cases: the Nixon Administration's response to recent inflationary and recessionary trends; the Johnson Administration's response to inflationary
pressures at the time of the Vietnam buildup; and the Truman Administration's response to the recession of 1948-49.

This framework could also be applied to Presidential behavior in the making of other types of policy for which the President is perceived to have a special responsibility. Environmental, civil rights, and defense policy are policy areas for which the President either has or is developing important responsibilities. The findings from these different areas of policy could contribute to the development of a theory of Presidential behavior in the policy process. In addition, it might be useful to apply this framework to issues that are clearly within Lowi's tripartite scheme and to focus on Presidential behavior in the making of his three types of policies. The findings from all of these kinds of cases could be compared with those from the present four cases. The more cases to which the framework is applied, the greater the support for propositions describing or explaining behavior within a particular function or describing patterns of functions that participants performed.

Future research might also focus on the role of ideology in influencing participants' behavior, particularly how ideology influences perception of an issue and of the alternatives available. Perhaps a closer examination of the relationship between party ideology and personal ideology would be helpful.
The first three functional categories—initiation, definition of the issue, and formulation—provide useful analytical concepts for studying the way in which a President accepts responsibility for a particular area of policy, for they deal with the manner of raising and defining an issue and formulating a policy in response to it. By employing these three different functional categories, one can determine whether or not the same participants raised and defined an issue and formulated a response to it. The President may accept responsibility for a particular kind of policy without actually performing all three functions.

The definition of the issue function is particularly useful in a study of the President's responsibility for a particular area of policy, for in studying this, one finds the concepts the President employs and the ways in which he sets the present issue and policy in the context of past issues and policies. By studying how a President defines an issue, one finds revealed the way in which the President perceives his responsibilities for that area of policy. In this connection ideology is a concept that can be used to explain the application of economic concepts to a concrete situation requiring definition. This function is also important because participants that define the issue in effect set the framework for debate. This involves an important exercise of power because it defines certain possible alternatives as within and other alternatives as
outside the realm of political feasibility.

Future research on the communications function might focus on the role of expert advisory agencies in providing information on the issue and on the proposed response in the policy process. Participants performing this function would be especially needed in those areas of policy that require technical information. Perhaps interest groups would perform this function under some conditions, such as where an advisory agency was lacking. Perhaps the use of such information as a significant source of power should also be investigated.

Another interesting question about the communications function that should be more thoroughly investigated is the manner in which information is presented. Specifically, to what extent is information presented in an "objective" manner? Is information, even presented in an "objective" manner, still used as a power resource?

A related question is whether communications is an analytically distinct function or whether it should be subsumed under other functions. If the information provided is basically nonobjective, perhaps it should be subsumed under such functions as mobilization, initiation, or definition of the issue.

Perhaps it would be wise to differentiate more clearly between mobilization of support for a proposal and mobilization of opposition. Future research could spell
out the various strategies a President pursues in mobilizing support or opposition. Questions regarding the influence of party appear fruitful. One might also want to consider more clearly the relationship between mobilization and modification or veto, for it seems apparent that one strategy for mobilizing support is to agree to modifications.

Future research on the modification function should distinguish between successful and unsuccessful attempts at modification, although clearly both should be considered. In addition, the question of Congress' predominant role in performing this function and of the partisan tone underlying it should also be examined.

A final major question to be considered in this section is whether all the functional categories must be included or whether, in the interest of more manageable research, some categories could be eliminated and still permit a thorough study of Presidential behavior in the policy process. The value of considering all these functions is that they cover all aspects of the policy process. They permit a study of the ways in which a President behaves in the policy process in meeting his economic responsibilities. Certainly a case can be made for a study of a limited number of functions, the first three for example. This could perhaps suggest how a President perceived his responsibilities and the kinds of policies he formulated to meet them.
And this is obviously of great importance. But such a study would not indicate how effective the President was in getting his programs adopted in the form that he proposed. Nor would it indicate much about the President's own techniques in seeking adoption of his programs, i.e., his role in mobilization. A consideration of all the functions would provide a more complete understanding of the President's behavior in the policy process.

One might want to design research limited to an examination of certain functions only. This would make the scope more manageable and permit an examination of many more cases. This might also be a useful way to generate hypotheses about the performance of the particular functions under study.

It should be pointed out that a study focusing on the President needs to go into greater depth in some functions than in others. For example, definition of the issue and formulation appear to require a much greater amount of research effort than does a consideration of prescription and veto. Any study focusing on Presidential behavior could justifiably devote less effort to some functions than to others because, for some, all that is required is a rather simple fact, e.g., whether a particular proposal was vetoed or prescribed.
The President's Role in Economic Policy-Making

This analysis suggests that the Presidents studied perceived that they had important economic responsibilities, but that they differed on the kinds of economic problems and responses to be included within the scope of their responsibilities. Republican and Democratic Presidents appeared to differ in the kinds of economic problems they perceived and in the responses their administrations formulated. It is unlikely that President Eisenhower would have recognized the same problems and proposed the same solutions as Presidents Kennedy and Johnson.

President Eisenhower was particularly concerned to demonstrate that a Republican Administration could respond to a recession effectively and prevent a depression. However, he also wanted his Administration to respond in what he regarded as a responsible manner that would not stimulate inflationary pressure. His conduct during the 1958 recession seemed to have reflected the belief that he had demonstrated this during the 1954 recession. In 1958, he appeared much more reluctant to act and more concerned about possible inflationary pressure. In its response to recessions, the Eisenhower Administration preferred monetary policy, the formulation of already scheduled tax reductions as counter-recessionary measures and the acceleration of scheduled expenditures and tried to avoid public works programs. The differences between the Eisenhower
Administration and the Democratic Congress on appropriate counter-recessionary techniques became apparent during the 1958 recession. Still, the Eisenhower Administration demonstrated that the Republicans accepted a governmental responsibility for acting to counter recessions.

In contrast to the rather cautious Eisenhower, Presidents Kennedy and Johnson illustrated a more innovative approach to the President's economic responsibilities. They expanded the President's economic responsibilities in the sense that they interpreted new economic problems within the purview of the President's economic responsibilities and advanced innovative policies to deal with them. The role of President Kennedy, under whose Administration the two innovative programs were begun, is particularly important. In the aftermath of a series of post-war recessions, the idea of a major tax cut to stimulate economic growth was suggested. The poverty program was formulated in recognition that the aggregate measures were not reaching the poor.

While these two programs may certainly be regarded as innovative, they should also be regarded as incremental. The final version of the tax cut did not contain as many innovative elements as Kennedy originally proposed. The poverty bill contained several programs that were of traditional concern to various executive agencies and in its initial year the funding was not commensurate with the claims being made for the program.
APPENDIX

A NOTE ON THE USE OF HISTORICAL DATA

The several functions of this analytical framework require the collection of different kinds of evidence. Some categories, e.g., prescription, veto and modification, make relatively simple demands on the researcher. It is quite an easy matter to determine which participant prescribed, vetoed or modified a particular proposal. A reading of the Congressional Quarterly could reveal this. But for other functions, the more difficult methodological problem of determining participants' perceptions and motivations arises. Perhaps these problems are presented most clearly in the context of the definition of the issue function.

In studying the definition of the issue, one important question is whose perceptions should be used. If participants disagree, whose definition of the issue should be studied? Due to the nature of the topic of this dissertation, the focus was on the definition of the issue held by the President and by the principal Administration participants. The President's definition was found to be influenced by the views of other participants, including those outside the Administration.
Once the researcher decides which participants to focus on, data on perceptions of these participants must be gathered. When possible, interviews with participants can be employed. But it is sometimes difficult or even impossible to interview key participants, particularly Presidents. In addition, if the research covers several Administrations over a period of time, many key participants may be dead. These considerations mean that researchers studying questions similar to the ones in this dissertation will likely have to rely on some sources other than interviews.

Researchers gathering data on participants' perceptions, particularly those of Presidents, will probably have to rely on historical data--statements and documents that are part of the public record, memoirs of participants, contemporary journalistic accounts and various secondary sources. The researcher should generally rely on the public record for participants' perceptions of the issue. It would, of course, be useful to know if a participant defines an issue one way in public and another way in private. However, the concept definition of the issue generally refers to the way participants publicly set the framework for debate.

Admittedly, under some conditions, definition of the issue refers to a process that is not actually a matter of public record. As the various cases in this dissertation
illustrated, for a period, Administration participants defined the issue among themselves. To study definition of the issue within the Administration, special reliance must be placed on memoirs, although journalistic accounts and secondary sources may also be useful. For any given point in time, comparisons can be made between what is revealed in private memoir material and in the public record.

In seeking to establish valid historical data for definition of the issue, the researcher should look for consistency in participants' statements about their perceptions. Frequent and noncontradictory statements about a particular matter increase the validity of the particular data. But rather than relying on a simple counting of statements, perhaps consistency should be considered the key test of validity. If there is disagreement over a participant's perception, the researcher will have to consider the various sources and make his judgment according to the weight of evidence. But major contradictions are unlikely to occur in a participant's public indications of his definition of the issue. It should be remembered that a participant's definition of the issue may well contain inconsistent elements, e.g., the response may be defined as a policy to serve many objectives, and this should not be regarded as a sign of invalidity. In addition, participants' definition of the issue might change over time.
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