SAMUEL MILNER

Assuming Direct Control: The Beguiling Allure of Incomes Policies in Postwar America

Abstract: Histories of American economic policymaking after World War II often describe a "Fiscal Revolution," in which Keynesian macroeconomic tools replaced the microeconomic regulations and reforms of the New Deal. This article challenges that narrative by demonstrating how the Keynesian economists responsible for the Fiscal Revolution relied upon incomes policies to ensure that inflation would not sabotage efforts to achieve full employment. In the 1960s, the White House Council of Economic Advisers pressed the Kennedy and Johnson administrations to enforce "wage-price guideposts" in order to realize the potential of the Fiscal Revolution. Yet incomes policies also encouraged policymakers to deflect responsibility for inflation onto the private sector's behavior as an alternative to adopting the painful but necessary fiscal and monetary restraint. As a reliance on the microeconomic control of inflation persisted into the late 1970s, this approach ultimately undercut the Keynesians' macroeconomic promises and prolonged the misery of stagflation.

Keywords: Fiscal Revolution of 1960–68, Keynesian Economics, incomes policies, Kennedy administration, inflation, wage-price guideposts

Following the massive wartime stimulus that ended the Great Depression, the United States embraced the tools of macroeconomic demand management associated with British economist John Maynard Keynes, a process that Herbert Stein famously termed the "Fiscal Revolution."[1] Historians of postwar political economy have recently implicated the rise of fiscal policy in diminishing the reformist impulse that had been prevalent during the New Deal. Rather than rely on regulation to redistribute income and purchasing

THE JOURNAL OF POLICY HISTORY, Vol. 31, No. 1, 2019.
© Donald Critchlow and Cambridge University Press 2018
doi:10.1017/S0898030618000337

https://doi.org/10.1017/S0898030618000337 Published online by Cambridge University Press

power to workers and consumers directly, Keynesian demand management allowed postwar policymakers to promise a growing pie for all claimants without direct economic intervention.[2] Indeed, the undisputed apex of the Fiscal Revolution, the Revenue Act of 1964, cemented an important compromise between liberal economists and conservative businessmen over the federal government's obligation to promote economic growth through the tax system rather than enlarged spending.[3] In contrast, American New Dealers sidelined at home after World War II looked to Western Europe to realize their collaborative vision of society. Thus, according to most historians, the closest postwar American parallel to the incomes and industrial policies of postwar Western Europe would be Richard Nixon's infamous experiment with direct wage and price controls from 1971 to 1974, the exception that seemingly proved the rule of the postwar preference for macroeconomic and not microeconomic control.[4]

Yet as this article will show, a decade before Nixon imposed what are often deemed "the first peacetime controls in American history," the same Keynesian economists who secured the passage of the Revenue Act had already prevailed upon the Democratic administrations of the 1960s to implement an incomes policy![5] By examining the rise, fall, and resurrection of these largely forgotten "wage-price guideposts," this article argues that resorting to incomes policies as a cure for inflation was not a rupture with postwar American economic policy but in fact the culmination of the Fiscal Revolution.[6] Postwar Keynesian economists described how powerful firms and unions could siphon off macroeconomic stimulus in the form of higher prices and wages, creating a dilemma for policymakers: tolerate high unemployment to prevent inflation, or pursue economic expansion at the risk of a "cost-push" inflation that would destabilize domestic markets and the managed exchange rates of the Bretton Woods System. In the late 1950s, the Eisenhower administration and the Federal Reserve chose to use fiscal and monetary policies to stamp out inflation, but their success came at the cost of recession. Rejecting this trade-offtrade-off, the Keynesians concluded that the government could only obtain full employment without inflation if it supplemented its macroeconomic tools with policies that would directly curtail the irresponsible behavior of the few and powerful.[7]

Beginning with the election of John F. Kennedy, the White House Council of Economic Advisers (CEA) became the locus from which Keynesians pressed the president to enforce an incomes policy when firms and unions appeared to be generating cost-push inflation. Kennedy's famous showdown

https://doi.org/10.1017/S0898030618000337 Published online by Cambridge University Press

with the steel industry over its pricing in 1962 represented more than the one-time assertion of presidential power over private business or an errant blip on the road to the Revenue Act that most historians have described. Rather, the steel dispute marked the starting point for almost two decades of continuous Keynesian efforts to repurpose the political institutions of the White House into a solution for the trade-off between inflation and unemployment. Kennedy subsequently adopted a more conciliatory tone to business, but Keynesians would successfully advocate for the active enforcement of the wage-price guideposts well after Lyndon Johnson had signed the Revenue Act into law.[8]

Though Keynesians initially proposed the guideposts as a supplement to fiscal policy, when inflation began to accelerate in the mid-1960s, a second and more durable rationale for relying on wage-price interventions became apparent. Instead of having to adopt the economically necessary but politically unpopular fiscal and monetary restraint, incomes policies allowed policymakers to deflect responsibility for inflation onto the private sector's behavior without having to abandon sight of full employment. The Johnson administration doubled down on the use of jawboning to enforce the guideposts at the same time as it opposed the macroeconomic actions that would have encouraged wage and price restraint. Although temporarily successful at delaying higher wages and prices in specific incidents, the president himself was unable overcome the self-interest of firms and unions in shielding themselves from the effects of inflation. The Federal Reserve eventually took matters into its own hands and Congress asserted its power over fiscal policy, but when these policies led to recession, the siren song of incomes policy continued to beckon. The Keynesian Consensus may have triumphed in the Fiscal Revolution of the 1960s, but a decade later its reliance on microeconomic control had undercut its macroeconomic promises and inadvertently prolonged the misery of stagflation.[9]

GUIDEPOST ORIGINS

Postwar economists agreed that when the economy passed the point of full employment, commonly assumed to mean about 4 percent unemployment, excess demand for goods would pull up prices and excess demand for labor would pull up wages.[10] This condition came to be known as demand-pull inflation, the classic phenomenon of too much money demand chasing too few goods. But in the 1950s, economists became troubled that prices were rising even though the economy seemingly retained much slack, a trend that came to be explained as cost-push inflation. According to contemporary theory,

https://doi.org/10.1017/S0898030618000337 Published online by Cambridge University Press

cost-push inflation arose when firms and unions took advantage of their market power to raise their prices and wages. This price and wage administration would reduce demand for products and labor, resulting in unemployment unless the government accommodated the higher wage-price level through inflation. The Employment Act of 1946 had committed the federal government to the pursuit of "maximum employment, production, and purchasing power," and the Keynesian backers of this law feared that firms and unions might interpret this language as a guarantee that the government would shield them from the consequences of their price and wage decisions. As a result, private economic actors could hold the government's macroeconomic policy hostage, as it was their decisions that determined how much inflation the government would have to tolerate in order to achieve full employment.[11]

This trade-off between lower unemployment and higher inflation was especially problematic as it apparently rendered the domestic priority of full employment inconsistent with the commitment to the international financial order, the Bretton Woods System. Under Bretton Woods, the dollar served as the basis for a global system of fixed exchange rates between currencies, with the dollar in turn convertible with gold. The United States provided liquidity to the rest of the world by running a deficit in its balance of payments, but the larger this gap became, the less confidence existed that the United States would be able to meet its obligations in gold. Inflation exacerbated the balance of payments deficit by making exports less competitive and eroding the value of dollars held abroad, making it more likely that foreigners would attempt to cash in dollars for gold at the risk of bringing down the entire system.[12]

Soon after the passage of the Employment Act, Keynesian economists began to argue that if a democratically accountable government wished to free itself from the inflationary constraints imposed by a democratically unaccountable free-market economy, it would have to cultivate a sense of private responsibility.[13] Already in the inaugural (1948) edition of what would be the best-selling economics textbook of the century, Paul Samuelson's *Economics,* the MIT economist and future Nobel laureate concluded his chapter on "Fiscal Policy and Full Employment without Inflation" with the warning that "*wages and prices may begin to soar while there is still considerable unemployment and excess capacity*" [italics in original]. Samuelson noted that the Employment Act had affirmed a joint public-private responsibility for economic stabilization, but he also described how business and unions acting "perversely" in response to increased demand would drain fiscal stimulus into inflation rather than employment. Establishing a wage-price policy that

https://doi.org/10.1017/S0898030618000337 Published online by Cambridge University Press

would reconcile microeconomic behavior with macroeconomic objectives remained "America's greatest problem and challenge."[14]

President Dwight D. Eisenhower accepted the Keynesian diagnosis that inflation emerged as a result of private-sector decisions. As he explained at a Cabinet meeting at the end of 1956 in response to the rejection of an apparently moderate settlement in railroad negotiations, there was a contradiction when the greatest private-sector exponents of free enterprise failed to exercise the wage-price restraint necessary to sustain a free economy.[15] Nevertheless, Eisenhower disagreed with the suggestion that the government must intervene directly to enforce a noninflationary wage-price policy, considering this to be a solution incompatible with the free economy it was supposed to protect. Instead, he limited his direct engagement to generalized exhortations about the dangers of inflationary behavior. In his 1957 State of the Union Address, for instance, Eisenhower called on businesses to "avoid unnecessary price increases," and for labor compensation to be "reasonably related to improvements in productivity," warning that otherwise political pressures to reduce inflation could lead to the replacement of private decision-making with government control.[16] The CEA hoped that Eisenhower's appeals for wage-price restraint might suffice to moderate labor compensation and so obviate the need for firms to mark up their prices to preserve profits. If firms and unions did not respond, however, the government would have to exercise its responsibility over fiscal and monetary policy to establish the conditions in which the private sector would have little choice but to modify its behavior, stabilizing prices at the temporary cost of moving farther away from full employment.[17]

Federal Reserve Chairman William Martin recognized the costs of restrictive macroeconomic policies, but he believed that once expectations of inflation had become ingrained, it would require resolute action to prevent inflation from spiraling out of control and the balance of payments from collapsing. As he explained to CEA Chairman Raymond Saulnier during a meeting in April 1957, "[Credit ease] would convey to the business community the impression that the Board's policy is to validate price levels inflated by a cost push and that this would induce an inflation-minded psychology and have very damaging long-run consequences."[18] Eisenhower agreed with Martin that inflation rather than unemployment was the greater of two evils, and so he was willing to accept the recessionary costs of monetary restraint. Eisenhower declined to increase spending on public works to alleviate unemployment, and he ruled out a tax cut on the grounds that the short-run need for countercyclical fiscal expansion did not outweigh the long-run need to

https://doi.org/10.1017/S0898030618000337 Published online by Cambridge University Press

balance the budget. Instead, he aimed to wring out inflationary expectations through budget surpluses, achieved in 1956, 1957, and 1960.[19]

Eisenhower and Martin's efforts, although crude in comparison to the economic theory of the later twentieth century, successfully combated inflation.[20] While unemployment rose from under 4 percent in 1957 to over 7 percent in 1958 and again in early 1961, contemporary conservative economists applauded the use of macroeconomic policy to establish the incentives for wage and price restraint without microeconomic controls. As Milton Friedman of the University of Chicago had argued to Saulnier in 1957, exhorting the private sector to prioritize the national interest against inflation only distracted the government from putting its own monetary house in order: "[Exhortation] seems to me not only to be analytically wrong, but politically dangerous. Heaven preserve us from a world of business men and labor leaders conducting their affairs in terms of 'social responsibility.'" Former Eisenhower CEA member Neil Jacoby of UCLA likewise wrote Saulnier that it was the government's responsibility to "establish an *environment* within which vigorous competition, among private individuals and groups each actively seeking his own self-interest, will *result* in general prosperity and a stable price level."[21]

To contemporary Keynesian economists, however, this use of fiscal and monetary restraint to combat cost-push inflation indirectly proved socially indefensible because it imposed a burden of unemployment on society as a whole rather than targeting those who abused their market power. In his 1958 bestseller, *The Affluent Society*, Harvard economist John Kenneth Galbraith decried the use of macroeconomic demand management techniques to target inflation as antisocial, belittling monetary policy specifically as "ineffectual, discriminatory, and, possibly, dangerous." Galbraith argued that the only way to pursue maximum employment without encountering inflation would be for the government to insert itself into the private economy as a countervailing force on behalf of the public at large.[22] Similarly, Samuelson and his MIT colleague Robert Solow would estimate in 1960 that the government could use fiscal and monetary policies to move the economy between different trade-offs, including price stability at the cost of about 5.5 percent unemployment and full employment with 4.5 percent inflation. Samuelson and Solow distinguished between the ability to select a trade-off along this "Phillips Curve" from policies that would move the curve itself. Shifts could occur due to "the institutional changes on which cost-push theories rest," such as union market power or postwar expectations of full employment. These two leading Keynesian macroeconomists concluded that the government could engineer

https://doi.org/10.1017/S0898030618000337 Published online by Cambridge University Press

a more favorable set of trade-offs through "feasible institutional reforms . . . designed to move the American Phillips' curves downward and to the left."[23] Incomes policy, although not cited in the paper directly, was one such method. As Samuelson would elaborate several years after the publication of this paper, incomes policy shifted the entire curve by causing a less-than-competitive economy to better approximate the set of trade-offs that would exist in a more competitive and less sticky economy.[24]

THEORY INTO PRACTICE

Samuelson, Solow, and Galbraith would do more than provide theoretical justifications for incomes policy in the wake of Eisenhower and Martin's macroeconomic battle against inflation. When the Democratic Party took the White House in 1960, due in no small part to dissatisfaction over the state of the economy, these Keynesians themselves played instrumental roles in enacting their preferred policies. Samuelson served as Kennedy's economic adviser during the presidential campaign, and he urged the president-elect to embrace an incomes policy that would permit fiscal and monetary policy to pursue expansion without fear of premature inflation. Samuelson warned Kennedy that a democratic government could not forsake its responsibilities to the American people by running deliberate slack to minimize inflation as had Eisenhower. In an echo of his work with Solow, Samuelson instead recommended "government influence": "Just as we pioneered in the 1920's in creating potent monetary mechanisms and in the 1930's in forging the tools of effective fiscal policy, so may it be necessary in the 1960's to meet head on the problem of a price creep."[25] In meeting with Samuelson and other members of his economic team, Kennedy referred to the work of Galbraith and other economists in declaring how his administration would be "inclined to make *hard* requests of both business and labor" in order to avoid inflation without having to abandon a strong posture on defense spending.[26]

The Keynesian economists who filled out the Kennedy CEA fully agreed with Samuelson's model of the inflation-unemployment trade-off. Kennedy appointed Walter Heller of the University of Minnesota as his CEA chairman, with James Tobin of Yale University and Kermit Gordon of Williams College as the other members. Like Samuelson, these three economists all supported using active fiscal policies to keep the economy at its full potential, and they also looked forward to experimenting with wage-price policy in order to improve the trade-offs achieved through fiscal expansion.[27] For added

https://doi.org/10.1017/S0898030618000337 Published online by Cambridge University Press

support, Heller also turned to the CEA's new chief staff economist, Robert Solow. Given Solow's work with Samuelson the previous year, it was only natural that Heller's first memo to his chief staffer included a request for an early meeting on the wage-price issue. [28]

Heller's ultimate goal as CEA chairman was to secure a permanent tax reduction in order to remove the "fiscal drag" that the tax system placed on private demand, allowing the economy to move back to full employment. As Kennedy and his fiscally conservative Treasury Secretary C. Douglas Dillon were initially too committed to balanced budgets to consider this approach, the CEA had to pin its initial hopes for growth on expansionary monetary policy. Martin indicated in his meetings with Kennedy that he would be more willing to take an aggressive stance on monetary policy if the wage-price and balance of payments situations were resolved. Fortunately for Heller, Kennedy agreed with his CEA chairman on wage-price policy more than he did on fiscal policy. At the conclusion of a meeting with the CEA and Martin on June 12, 1961, Kennedy ordered the CEA to establish this agreement with the Federal Reserve: "We have to try hard to bring the wage-price problem under control."[29]

Economic developments in the summer of 1961 forced the White House to improvise in implementing federal wage-price policy. Additional defense spending in the wake of the Berlin Crisis provided a fiscal shot in the arm, but it also moved the economy closer toward the danger-zone where firms and unions were expected to become bolder in experimenting with cost-push inflation. To the CEA, the most immediate threat to the three-year record of price stability appeared to come from the steel industry, which was contracted to raise wages on October 1, 1961. The steel industry had taken a 116-day strike in 1959 in order to cut by more than half its two-decades-long annualized trend of about 8 percent growth in employment costs. In return, the industry pledged to cease raising prices annually as it had for most of the 1950s. But the steel industry's profitability had weakened since signing the contract, and the CEA anticipated that the industry might return to its previous pricing strategy to reverse this trend.[30] Rising steel prices were especially dangerous in light of the balance of payments. Heller would attribute a quarter of the $3 billion increase in the payments deficit between 1957 and 1961 to decreased net exports of iron and steel, and Tobin's European contacts informed him that "well-informed Europeans look upon the steel wage settlements as the most critical economic event in the United States in 1962. They think that if we can hold the line on steel, the dollar has a good chance of withstanding the trials ahead."[31]

https://doi.org/10.1017/S0898030618000337 Published online by Cambridge University Press

Kennedy himself feared that a steel price increase could set off cost-push inflation. Kennedy discussed with Secretary of Labor Arthur Goldberg, previously the counsel to the United Steelworkers (USW), a strategy of asking the union to forgo its wage increase voluntarily in return for steady prices, but Goldberg replied that this request would do more harm than good.[32] Instead, Kennedy and Heller worked out a plan of action in which Democratic senators launched a preemptive assault on the industry's claims to a price increase through a series of speeches written by the CEA.[33] Kennedy then wrote to the industry to emphasize that the industry's statesmanship in absorbing wage increases would place the burden on the union to restrain wages when the contract expired in 1962.[34] Roger Blough, chairman and CEO of U.S. Steel, acknowledged Kennedy's between-the-lines offer to pressure the USW, and on September 21, 1961, Blough informed Kennedy that there would be no price increase that year.[35]

The encounter with the steel industry demonstrated to Heller that the private sector could not be counted upon to hold to wage-price policy voluntarily, but the White House's success in preventing a steel price increase also suggested an effective strategy to combat cost-push pressures. In several speeches that October, Heller introduced a new component to the familiar exhortations to base wages and prices around productivity, an innovation that he described to the president as "[not] very sexy, but it may still be seminal." The federal government's role in wage-price policy was no longer simply to prevent excess demand from emerging but to persuade and to induce management and labor to negotiate in the public interest. Where the Eisenhower administration had refused to intervene in individual circumstances, Heller argued that a "reasoned and persuasive appeal for specific actions" such as had been made in steel was a constructive tool to ensure adherence to wage-price policy.[36]

The Heller CEA formally laid out the federal government's new approach to wage-price policy in the 1962 "Economic Report of the President," the annual statement required under the Employment Act explaining how the president would fulfill his macroeconomic obligations. Based on the oral reminisces of several CEA staffers, it appears that Solow, the coauthor of the American Phillips Curve, was heavily involved in writing this discussion.[37] The report introduced the wage-price guideposts as the solution to the inflation-unemployment trade-off and a way to strengthen the balance of payments without weakening aggregate demand. The key principle of the guideposts was that labor compensation should grow at the same rate as labor productivity did for the entire private economy. If an industry's own rate of

https://doi.org/10.1017/S0898030618000337 Published online by Cambridge University Press

productivity growth exceeded the national increase, its unit labor costs would fall, allowing the industry to pass on these savings in the form of lower prices. Conversely, for those industries whose productivity grew more slowly than the national rate, prices would be allowed to rise to offset the excess cost absorption. On average, the result would be price stability with rising real wages, permitting the government to reduce unemployment without fear of weakening the value of the dollar.[38]

WITH THE JAW OF AN ASS

The economic report contained one of the most detailed discussions of wage-price policy to date, but there was little new in its economic content. Solow soon after expressed his surprise that "so much originality and special character have been imputed to the guideposts" when even the Eisenhower CEA had included a similar discussion in its own economic reports.[39] Nevertheless, the 1962 report represented a major shift in economic policy through its implicit threat that the government would take actions to ensure that firms and unions followed these microeconomic rules. As Heller would explain to Kennedy in comparing the guideposts to the British Government's recent demands for wage-policy compliance from labor, the CEA's euphemism of informing "public opinion" was a "cautious subterfuge" intended to achieve the same result.[40]

The first target of this new approach was the steel industry, whose 1960 contract was set to expire in mid-1962. Heller had calculated that steel's output per man-hour had risen by 2.4 percent a year since 1947, although adjusting for different rates of capacity usage produced a trend of 3.4 percent, about equal to his estimate of the national postwar productivity rate. Given these trends, Heller advised Goldberg that a wage settlement within the range of 2.5–3 percent would be in line with the industry's productivity trend, preventing an increase in unit labor costs that would legitimize higher prices under the guideposts.[41] After several weeks of backroom telephone calls, Goldberg arranged for David McDonald of the USW and Roger Blough of U.S. Steel to meet with Kennedy on January 23, 1962. According to McDonald's recollections of this meeting, Kennedy asked the union president if he would accept the limit of a 3 percent productivity factor. McDonald recognized the concept from the economic report, and he reluctantly agreed. When negotiations hit an impasse a month later, Goldberg stepped in to suggest a compromise settlement of about 10 cents/hour or 2.5 percent, which formed the basis of the final settlement.[42]

https://doi.org/10.1017/S0898030618000337 Published online by Cambridge University Press

Despite having finally brought the 8 percent wage trend of past decades in line with its productivity growth with help from the White House, the steel industry still intended to raise its prices to improve its finances. Heller urged Kennedy to dispute the industry's arguments that "would make steel eligible for a price increase under that section of the wage-price guidelines which allows price increases to industries with below-average productivity trends." Unfortunately for Heller's efforts to ensure that Kennedy "[went] down in history as the Man Who Broke the Wage-Price Spiral," this memo arrived on the president's desk five hours too late to be anything but "an ironic note, now mainly of historical interest."[43] Earlier that day, April 10, 1962, Blough informed Kennedy to his face that U.S. Steel would raise its prices by 3.5 percent, an average of $6/ton, to "catch-up" with the long-run excess of labor compensation above productivity.[44]

If steel could violate the guideposts with impunity, others would not be far behind. So much, then, for preventing the Federal Reserve from safeguarding the balance of payments despite the adverse effect on domestic employment. Fortunately for the CEA, after all the administration had done to achieve a noninflationary settlement, Kennedy took Blough's action as a personal insult to himself and the institution of the presidency. As he told McDonald over the phone that evening, "You've been screwed and I've been screwed."[45] Kennedy blasted the industry at his press conference the next day, the Department of Justice opened an antirust investigation, and the Senate Committee on the Judiciary subpoenaed the industry for cost-price justification.[46] These threats failed to keep the other major steel firms from following U.S. Steel, but when a few of the smaller companies hesitated, the CEA recognized that these companies could inject the needed price discipline. Undersecretary of Commerce Edward Gudeman contacted Joseph Block of Inland Steel to urge him against raising prices, and on April 13, 1962, Inland's board rejected following U.S. Steel. Seventy-two hours after first announcing the increase, U.S. Steel capitulated.[47]

With the administration united in its opposition to the steel price increase, jawboning had scored a stunning success for the guideposts. Kennedy quickly followed up on this victory by showing intense interest in a more regularized system of guidepost enforcement. He personally directed the CEA to prepare studies of how Western European governments exerted control over their economies' wage-price decisions, no doubt seeking inspiration for future confrontations.[48] At the White House Conference on National Economic Issues in late May, Kennedy even suggested that businesses acquaint themselves with European-style planning and public-private cooperation, although he was careful to denounce a "regimented economy."[49]

https://doi.org/10.1017/S0898030618000337 Published online by Cambridge University Press

But there was a problem with this adversarial approach to inflation management: the private sector could fight back. Unease about Kennedy's intent to intervene in other markets and a gloomy outlook for profitability if forced to absorb labor settlements contributed to a growing business pessimism. When on May 28, 1962, the Dow-Jones Industrial Average experienced its largest one-day decline since the Great Depression, Kennedy and many in the financial community believed that the president's apparent hostility to corporate profits played a large role in this drop.[50] Ironically, the threat of an economic downturn provided an opening for a coalition of shared macroeconomic interests between Heller and the same businessmen who decried the guideposts. From the relatively liberal Committee for Economic Development to the conservative National Association of Manufacturers, business groups not only sought lower income taxes but, like Heller, desired a way to ensure that the tax system would not automatically siphon away economic growth. Heller made sure that the president was aware of the business support for this program of tax cuts, and when Kennedy feared businesses would not accept a tax cut if it raised the deficit, these groups continued to proclaim their support. Kennedy and Dillon finally endorsed the tax cut that the Keynesians had wanted all along: a permanent reduction in both the corporate and individual income tax schedules that would clear fiscal drag.[51]

As Kennedy embraced the business community's preferred fiscal policies to shift the economy along the Phillips Curve, he backed away from his efforts to shift the Curve itself. By July 1962, at Tobin's farewell reception, it was clear to the guest of honor that the president "was obviously having second thoughts about [the steel crisis] and the whole matter of wage-price guideposts. With a knowing look at me, he said we may have bit off more than we can chew."[52] When Secretary of Labor Goldberg resigned in September 1962, the appointment of longtime mediator W. Willard Wirtz as his replacement also signaled to the business community that the Department of Labor would now take a less interventionist approach to wage-price policy than it had previously.[53] Even when the steel industry raised prices on selective products in the spring of 1963, Heller cautioned the president that the White House did not need "to overdo the spectre of inflation lest we give aid and comfort to price increases and to the Federal Reserve Board [to raise interest rates]." Heller thought it would be useful for Kennedy to continue to endorse the guideposts in public, but there was no evidence of a budding wage-price spiral. Although the guideposts "have inevitably been bloodied a bit . . . most recently by the [1963] steel price increases," Heller concluded that the steel industry's actions in April 1963 would at worst provide less impetus to inflation than those of April 1962.[54]

https://doi.org/10.1017/S0898030618000337 Published online by Cambridge University Press

As the summer of 1963 went on, however, the CEA rediscovered its concern about cost-push inflation. The Federal Reserve raised the discount rate from 3 percent to 3.5 percent in July 1963 as part of efforts to stem an outflow of funds to foreign countries, and Heller feared that Martin would continue to tighten monetary policy at the latest whiff of inflation.[55] The CEA forecasted that once Congress passed the requested income tax cuts, the removal of fiscal drag would finally generate a drop in the unemployment rate from the mid-to-high 5 percents around which it had hovered since late 1962. As employment rose and idle capacity went into operation, preventing inflationary wage-price movements would become more difficult. The CEA still considered retarding aggregate demand in order to prevent cost-push inflation to be self-defeating, but it also foresaw that Chairman Martin would not hesitate to take this action unilaterally if rising prices threatened the balance of payments. Incomes policy would henceforth be an even stronger prerequisite for attaining noninflationary growth than it had been during the sluggish early 1960s.[56] The minutes of a confidential CEA staff meeting on September 21, 1963, reveal that the CEA was preparing to secure Kennedy's renewed backing for the guideposts: "Get implicit or explicit support from the President. Plug in the fact that the Europeans are getting serious."[57] When the steel industry again raised prices in October, Heller now urged Kennedy to act before Martin interpreted a creep in the industrial price level as a threat to the balance of payments. "Jawbone control," Heller wrote to Kennedy, was unpleasant, but it "may be a reasonable cost to incur" to preserve macroeconomic expansion alongside price stability. [58]

"A NEW PRESIDENT WITH A DIFFERENT STYLE"

Kennedy's assassination on November 22, 1963, provided the CEA with an unhappy opportunity to reinvigorate the guideposts approach. Lyndon Johnson was less economically sophisticated than his predecessor, but he was also well known for his willingness to twist arms in order to get his policies enacted, the so-called "Johnson Treatment." As new CEA member John Lewis wrote to Heller, this "new President with a different style" offered the CEA the perfect chance to reaffirm its microeconomic objectives through "selective personal presidential non-publicized jawbone control."[59] Behind the scenes, Lewis also suggested formally endorsing 3.2 percent, the five-year moving average of labor productivity, as the official wage guidepost. While his staff dissuaded him from taking this rigid approach, that figure nevertheless appeared in several tables in the 1964 economic report. When the press reported that

https://doi.org/10.1017/S0898030618000337 Published online by Cambridge University Press

3.2 percent was the official guidepost, the CEA did little to dissuade this impression.[60]

Johnson initially tempered his interest in enforcing the guideposts to minimize any political fallout from jawboning. Most notably, he declined the CEA's proposal to intervene in auto industry collective-bargaining negotiations before the 1964 elections lest he alienate both the United Autoworkers and a business community newly appreciative of Johnson's role in securing tax reductions. Following his reelection, however, the president began to take a more active approach to jawboning as urged by his new CEA chairman, Gardner Ackley of the University of Michigan. Ackley possessed more experience with price controls than almost any other economist in the country, having previously served as the chief economist at the Office of Price Stabilization during the Korean War. Ackley had learned from that experience how steel prices served as the linchpin for stabilization, and he warned Johnson that the 1965 steel industry wage negotiations would serve as "the key test of the guideposts—both for wages and prices." Ackley explained that the steel industry had become "the symbol of the Government's determination to hold the price-cost line." Failure to obtain a guidepost-compliant outcome could deprive Johnson of the macroeconomic levers needed for economic expansion: "If prices start to rise, it will be hard to hold Bill Martin in check."[61]

With the steel union souring on a half-decade of restraint and the industry threatening to resort to a lengthy strike to hold down wages at the risk of intensified steel imports, Johnson agreed to intervene. After meeting with representatives of the steel industry and union in Washington in early September 1965, Johnson essentially locked them into the Executive Office Building and refused to let them out until they had agreed to abide by the guideposts. In the early hours of September 3, the two sides accepted a settlement brokered by Wirtz and Secretary of Commerce John Connor that Ackley conveniently evaluated as 48 cents over 39 months, or 3.2 percent a year.[62] When Bethlehem Steel then announced a price adjustment on structural steel on December 31, 1965, Johnson's aides detected a sinister expectation on the part of the industry that Johnson would not take the political risk of being seen as "anti-business," as Kennedy had been in 1962.[63] Johnson instead replicated Kennedy's fury and announced to the industry that it could no longer "consider the interests of your country and your company with complete freedom." The Defense Department then banned companies that raised the price of structural steel from receiving defense contracts, and the industry quickly gave in.[64] The stock market fell early the next year, but observers attributed it to uncertainty over tax policy, Vietnam, poor sales by blue-chip

https://doi.org/10.1017/S0898030618000337 Published online by Cambridge University Press

industrials, and the psychological barrier of the Dow Jones breaking 1,000. The market no longer considered jawboning a force for economic uncertainty.[65]

Through 1965, the Johnson administration had presided over an economic expansion accompanied by virtual price stability. Unemployment fell in response to the tax cuts of the Revenue Act of 1964, and when the civilian unemployment rate finally hit its full-employment target of 4 percent in January 1966, the consumer price index was only 6.7 percent over its level when Kennedy had taken office five years before and the wholesale price index only 3.5 percent more. Unit labor cots for the manufacturing sector had actually fallen since 1961, while real wages had increased.[66] Keynesians attributed at least part of this success to the guideposts, although their causal arguments did not go unchallenged by contemporaries.[67] As the economy now stood poised to pass the 4 percent mark of full employment, however, even Keynesian economists agreed that wage-price policy would have little effect on an inflation that resulted from an excess of demand relative to supply and not cost-push pressures. In early 1966, Ackley warned Johnson that it was necessary to siphon off purchasing power through higher taxes lest inaction "[turn] a creeping inflation into a canter, which would force us to slam on the brakes and risk brining the Johnson prosperity to an end." Unless the administration took fiscal action against demand-pull pressures, Martin's Fed would not hesitate to raise interest rates, threatening a steep drop in investment and growth.[68]

Yet Johnson delayed in undertaking macroeconomic restraint, unwilling to sacrifice his signature spending programs on the Great Society and the Vietnam War and cognizant that a tax request could also quickly become an unpopular war tax. Only in January 1967 did Johnson request any income tax surcharge, but seven months later, with negotiations with Congress stalled over spending cuts, deteriorating macroeconomic conditions pushed his initial request for a 6 percent income tax surcharge up to 10 percent.[69] In the meantime, the White House had doubled down on jawboning to keep wages and prices from rising. The 1966 economic report formally endorsed the 3.2 percent wage standard, even though the five-year arithmetic moving average used to calculate that result in past years in fact now yielded 3.6 percent. Wirtz had informed Ackley that labor would not look kindly on lowering the guidepost without an overall austerity program to restrain the cost of living, but as labor productivity had risen only 2.8 percent in 1965, a higher wage target would result in rising unit labor costs. Ackley thus ignored the warnings to stick with 3.2 percent.[70]

Perceiving that the CEA had changed the rules in the middle of the game, organized labor resolved to shatter what now appeared to be a limit dictated

https://doi.org/10.1017/S0898030618000337 Published online by Cambridge University Press

by political rather than economic calculations. The definitive union victory over the guideposts occurred later that year, when the International Association of Machinists (IAM) struck the nation's major airlines. Both Ackley and Wirtz understood that the IAM was using this dispute to eliminate the guideposts, but where Ackley urged Johnson to stand behind the anti-inflation program, Wirtz recognized that the IAM would never accept 3.2 percent. Johnson sided with Wirtz and brokered a settlement that cost a full percentage point above the guideposts, but the militant rank and file of the IAM rejected even that presidential compromise to obtain a settlement estimated to cost 4.9 percent a year.[71] When Johnson then offered a compromise far above the guideposts to prevent a strike from disrupting GE's defense production, it became clear that Johnson no longer judged wage guideposts as worth the risk of angering his labor supporters. The 1967 economic report included a general discussion of the productivity principle and the need to restrain prices, but it omitted specifics, an approach that Ackley later described as "an essentially meaningless formulation."[72]

Though guideposts and jawboning had failed to combat wage pressures, the CEA continued to promote restraint against inflation on the pricing side. Ackley turned to Joseph Califano, Johnson's chief domestic policy aide, to appoint an administration "price czar" responsible for discussing pricing concerns with industry representatives and warning them of potential consequences. These efforts scored some jawbone victories for the administration, most notably when the White House dissuaded General Motors from raising the price of its 1968 models mid-season and forced the rescission of yet another steel industry price increase in the summer of 1968. Yet for every fight the administration won in newsprint, gasoline, or x-ray film in 1967 and 1968, it was inescapable that the problem of inflation was growing worse. New wage settlements, after tracking the guidepost figure up to 1965, leaped ahead in 1966–68 as workers found their real wages shrinking in the face of inflation. Unit labor costs in the nonfarm business sector, which had remained stable in 1961–65, began to rise, as did the nonfarm price indexes.[73]

As the CEA had long feared, the Federal Reserve now took the initiative. The Fed had raised interest rates and slowed the growth of the money supply beginning in December 1965, hoping to force Johnson to accept a tax increase. Faced with an overall excess of demand beyond supply and a strained industrial capacity and labor force, Martin warned Johnson that guideposts would also have little impact: "Persuasion can be helpful, but it has limitations."[74] Yet when tight money crippled interest-sensitive segments of the economy and encouraged financial disintermediation, Martin eased up in the summer of

https://doi.org/10.1017/S0898030618000337 Published online by Cambridge University Press

1967. Although Martin hoped he could trade monetary ease for fiscal restraint, this gambit aggravated inflation.[75] Only after two years of struggles with Congress and the Federal Reserve would Johnson accept fiscal responsibility in the form of the Revenue and Expenditure Control Act, which he signed on June 28, 1968. The Act imposed a 10 percent surcharge on income taxes and required the president to reduce fiscal expenditures by $6 billion in the next fiscal year, with an overall estimated effect of a $20 billion reduction in the federal deficit.[76] The White House called for inflationary expectations to adjust in the face of government fiscal responsibility, but instead the wage-price spiral continued, peaking in the second quarter of 1970 at a 5.6 percent annual increase in the GNP deflator.[77]

THE RETURN OF THE GUIDEPOSTS

The original Phillips Curve model as interpreted by Paul Samuelson and Robert Solow had predicted that an economy would encounter demand-pull inflation if policymakers selected a trade-off to the left of the point of full employment. What this model could not explain was why the rate of inflation had begun to accelerate at a given level of unemployment during the Johnson years. To answer this question, Friedman and University of Pennsylvania economist Edmund Phelps separately devised a new Phillips Curve model that cast doubt on the power of active fiscal policy. Policymakers could temporarily reach a trade-off past full employment by raising the actual value of inflation beyond what firms and households had anticipated, essentially fooling them into producing more. Yet as expectations of inflation adapted, the Phillips Curve would shift upward until unemployment had returned to its natural rate with a higher rate of inflation. Because policymakers could only decide the level of inflation at which the economy attained full employment, not a point along a static inflation-unemployment trade-off, the implication of this model was that the government should cease to blame private market actors for its own irresponsible polices and adopt a passive monetary policy year after year.[78]

Just as Samuelson and Solow had encouraged Kennedy to adopt their Phillips Curve model in the 1960s, Friedman and Phelps found a ready disciple for their anti-inflation approach in a 1968 presidential candidate, Richard Nixon. In the late 1950s, Vice President Nixon had watched as Eisenhower and Martin had tackled creeping inflation and the balance of payments deficit through budget surpluses and tight monetary policy. Nixon begged Eisenhower to ease up before the economy fell into recession on the eve of the 1960

https://doi.org/10.1017/S0898030618000337 Published online by Cambridge University Press

elections, but Eisenhower held firm, and Nixon lost the election.[79] With this experience in mind, Nixon was in no mood to put the economy through the wringer to stop inflation, but he also agreed that guideposts deflected the government's own macroeconomic responsibility onto the private sector. Nixon had briefly worked at the Office of Price Administration during World War II, and that experience had left him with the lasting impression that price controls not only produced inequities and shortages but also led to the abuse of government power.[80]

The expectations-augmented Phillips Curve offered a third approach to the wage-price dilemma. By pushing up the unemployment rate so that the economy was only slightly below full employment, expectations of inflation would subside, and the economy would eventually return to full employment at a lower, nonaccelerating rate of inflation with the free market left intact.[81] Nixon's speechwriters came to label this approach "backboning." Where jawboning amounted to the "government wagging a finger at business and labor to act with restraint while government acts without restraint," backboning required the government to quite literally put its money where its mouth was: "Government setting an example of restraint by its own, admittedly unpopular, belt-tightening actions, thereby earning the right to call for others to follow that example." Nixon thus pledged to do what Johnson had not: ensure that the government credibly demonstrated its own macroeconomic responsibility and established market incentives before calling on the private sector to exercise its own microeconomic restraint. [82]

Unfortunately for Nixon's gradualism, Federal Reserve Chairman Martin had learned from his mistaken easing of 1967–68 that it was necessary to prescribe an unambiguous posture of restraint to combat inflationary psychology. The Fed reduced the growth of the money supply from 7 percent in 1968 to only .7 percent in the second half of 1969, far below the gradual trend urged by the administration.[83] When Nixon took office, unemployment was 3.4 percent. By December 1970, it had reached a first-term peak of 6.1 percent, a situation uncomfortably reminiscent of the monetary-induced recession of the Eisenhower years. Furthering this parallel to the late 1950s, Keynesian economists, including Heller and Galbraith, again called for some form of incomes policy that would combat wage and price pressures directly and so allow monetary policy to provide relief in the face of recession.[84] In 1969, the Democratic Congress heeded these calls by passing legislation enabling the president to implement credit controls. When Nixon unsurprisingly declined to exercise this authority, Congress granted him the power to implement wage and price controls, a move intended as much to bolster the Democratic

https://doi.org/10.1017/S0898030618000337 Published online by Cambridge University Press

Party's claims to possess an efficient program of disinflation as it was to stop inflation in actuality.[85]

Though Friedman urged Nixon to continue his gradual program of backboning, many on the right now accepted incomes policy as an alternative to recession. Arthur Burns, whom Nixon selected to replace Martin as Federal Reserve Chairman in January 1970, unexpectedly endorsed an incomes policy in his public speeches on the grounds that monetary policy could do little to stop cost-push inflation without inflicting politically unacceptable economic costs.[86] Even the businessmen who had previously been on the receiving end of Kennedy and Johnson's jawboning conceded that government intervention was necessary to combat inflationary wage pressures. These executives described how union members with seniority and supplementary unemployment benefits would not be dissuaded from seeking higher wages except by the most serious of depressions. As firms could not voluntarily hold wages to the productivity trend, prices would have to follow wages to avoid a profits squeeze unless the government intervened.[87] As Nixon's Treasury Secretary John Connally summarized the situation in late June 1971, "Businessmen think that we've given up on inflation, because we're not putting in controls, wage controls."[88]

According to Nixon's memoirs, it was only when Connally spoke that the president realized that his political future required the abandonment of backboning in favor of the Keynesian combination of jawboning and macroeconomic expansion.[89] When misaligned real exchange rates, domestic inflation, and American monetary policy brought about the final collapse of Bretton Woods, Nixon and Connally seized upon this golden opportunity to implement a new approach to economic management. On August 15, 1971, Nixon imposed a three-month freeze on wages and prices, the start of almost three years of wage and price controls. Nixon also ended the ability of foreign governments to exchange their dollars for gold, largely removing the constraint of Bretton Woods on the pursuit full employment.

To make a long story short, Nixon's controls failed to stop inflation. Even before spikes in food and fuel prices ruptured ceilings in 1973, Nixon and Burns had made the same mistake that Johnson had by allowing incomes policy to lower their guard against inflationary fiscal and monetary policies. Erroneously believing the natural rate of unemployment to be lower than its true value by several percentage points, efforts to reduce unemployment to a politically acceptable level resulted in the return of demand-pull pressures.[90] Yet even after Nixon's controls faltered, veterans of the Kennedy and Johnson administrations continued to insist that an incomes policy —provided it

https://doi.org/10.1017/S0898030618000337 Published online by Cambridge University Press

stopped short of direct controls—was still the only alternative to the inflation-unemployment trade-off. In 1978, Arthur Okun, who a decade before had succeeded Ackley as Johnson's final CEA chairman, estimated that a permanent reduction of inflation by one percentage point would require a sacrifice of 10 percentage points of GNP in the absence of "the direct influence of public policy on costs." Charles Schultze, formerly Johnson's director of the Bureau of the Budget during the debates on fiscal policy in the late 1960s and now Jimmy Carter's CEA chairman, agreed that because cost-push pressures did not respond readily to economic slack, "government actions to deal with inflation must accept the existing degree of wage and price inflexibility as a difficult fact of life."[91]

Responding to concerns about sacrifice in the face of inflation from Okun, Schultze, and other Keynesian veterans of the 1960s, in October 1978 Carter announced a new incomes policy, bearing the suspiciously similar designation of wage-price guide*lines*, to be overseen by the White House Council on Wage and Price Stability (COWPS). This agency had in fact been requested by Nixon as a successor agency to his controls in order to ensure "that Government have [*sic*] the information it needs to persuade labor and management to do their duty in the effort to reduce inflation."[92] Gerald Ford had taken advantage of the brief honeymoon he enjoyed after Nixon's resignation to win quick approval of this agency from Congress, although he himself would not utilize its powers beyond a handful of interactions with the steel industry and other traditional targets of incomes policies. The Carter administration expanded upon what was by then left of COWPS in order to monitor and enforce the guidelines, but once again, inopportune macroeconomic policy made wage and price restraint impossible to achieve. An expanding budget deficit for fiscal year 1980 led financial markets to build even higher expectations of inflation into interest rates, while the Federal Reserve consistently overshot its monetary target under Carter's new chairman, G. William Miller.[93] Making a bad inflationary situation even worse, inflation again spiked into the double digits in response to the Second Oil Shock of 1979–80. By the end of 1980, even Schultze admitted that the only component of COWPS that had not outlived its usefulness was its mandate to review the costs of government regulation.[94]

The inflation that began on Johnson's watch would only come to an end a decade and a half later, once policymakers abandoned their reliance on incomes policy in favor of concerted macroeconomic restraint. Disregarding Keynesian arguments about sacrifice and cost-push inflation, Federal Reserve Chairman Paul Volcker, who replaced Miller in July 1979, sought to create a

https://doi.org/10.1017/S0898030618000337 Published online by Cambridge University Press

credible expectation of disinflation. Volcker introduced a new monetary target for the Fed's operations, with the result that interest rates rose to their highest levels in decades.[95] Keynesian economists complained loudly about the costs of Volcker's disinflation program as he sent the economy into the double-dip recessions of the early 1980s, but just as Dwight Eisenhower had supported Martin's course of monetary disinflation in the 1950s, so too would Volcker receive political cover from Ronald Reagan. On the campaign trail, Reagan denounced wage-price policy for shackling the free market while giving the government a free pass to spend recklessly, and once inaugurated, Reagan wasted little time in doing away with the vestiges of COWPS, declaring it a failure that "has been totally ineffective in controlling inflation.[96] Despite the widening federal deficit produced by the Reagan administration's combination of tax cuts and defense spending, inflation had subsided by 1985 at only about a third of the cumulative loss of output predicted by Keynesians in the late 1970s.[97]

CONCLUSION

With the hindsight of Paul Volcker's success, it is clear that policymakers derived the wrong lessons from the economy of the late 1950s. Dwight Eisenhower and William Martin had engineered a recession as an indirect encouragement for private market actors to slow the pace of wages and prices, but mid-century Keynesians emphasized that price stability had come at the cost of 7 percent unemployment. Keynesians believed that this trade-off between inflation and unemployment would persist as long as the government could only influence private economic behavior indirectly. In contrast, direct regulation of wages and prices would permit macroeconomic demand management to move the economy to an altogether more favorable trade-off, where unemployment and inflation were both lower than before and full employment could be achieved without shirking America's international responsibilities.

Premised on a fundamental incompatibility between self-interest and public interest, the guideposts promised to save capitalism from itself and, given the ongoing concerns about Bretton Woods and defense spending, make the free world safe for macroeconomic stimulus. The apparent success of the wage-price guideposts in the first half of the 1960s encouraged the belief that Keynesians had mastered the Phillips Curve and made possible the fulfillment of the Fiscal Revolution. Yet by identifying individual firms and unions as the key roadblocks to macroeconomic stability, Keynesian economists perversely encouraged the White House, Congress, and even the Federal

https://doi.org/10.1017/S0898030618000337 Published online by Cambridge University Press

Reserve to destabilize the very economy that they sought to support. When the guideposts collapsed in the overheated economy of the late 1960s, Johnson was forced to concede that the federal government could only ensure responsibility on the part of firms and unions when it took full responsibility for its own behavior. Still, this lesson proved fleeting, as the Keynesian promise of a relatively painless disinflation held more appeal than the backboning of Friedman and Phelps. Only after Volcker empirically disproved these Keynesian theories did the reliance on active fiscal policy as well as the use of incomes policy come to an end in the United States. Keynesians had long feared that the Federal Reserve would sabotage their Fiscal Revolution, but after nearly two decades in which incomes policies had failed to stop inflation, it was ultimately monetary policy that proved the key to achieving macroeconomic stability without microeconomic controls.

Yale University

NOTES

1. Herbert Stein, *The Fiscal Revolution in America: Policy in Pursuit of Reality*, 2nd rev. ed. (Washington, D.C., 1996).

2. Alan Brinkley, *The End of Reform: New Deal Liberalism in Recession and War* (New York, 1995); Lizabeth Cohen, *A Consumers' Republic: The Politics of Mass Consumption in Postwar America* (New York, 2003); Meg Jacobs, *Pocketbook Politics: Economic Citizenship in Twentieth-Century America* (Princeton, 2005).

3. Robert M. Collins, *The Business Response to Keynes, 1929–1964* (New York, 1981); Cathie J. Martin, *Shifting the Burden: The Struggle over Growth and Corporate Taxation* (Chicago, 1991); Robert M. Collins, *More: The Politics of Growth in Postwar America* (Oxford, 2000); Michael A. Bernstein, *A Perilous Progress: Economists and Public Purpose in Twentieth-Century America* (Princeton, 2004); Brian Domitrovic, "Does Government Intervention Retard or Foster Economic Growth? The Case of Postwar Prosperity," *Journal of Policy History* 29, no. 2 (March 2017): 289–304.

4. Andrew Schonfield, *Modern Capitalism: The Changing Balance of Public and Private Power* (London, 1965); Michael J. Hogan, "American Marshall Planners and the Search for a European Neocapitalism," *American Historical Review* 90, no. 1 (February 1985): 44–72; Barry Eichengreen, *The European Economy Since 1945: Coordinated Capitalism and Beyond* (Princeton, 2007). On Nixon: Neil de Marchi, "The First Nixon Administration: Prelude to Controls," in *Exhortation and Controls: The Search for a Wage-Price Policy, 1945–1971,* ed. Crawfurd D. Goodwin (Washington D.C., 1975), 295–352; Allen J. Matusow, *Nixon's Economy: Booms, Busts, Dollars, and Votes* (Lawrence, Kans., 1998).

5. John T. Woolley, has noted how the repeated lack of success with incomes policies during the 1970s ultimately discouraged policymakers from engaging in active fiscal

https://doi.org/10.1017/S0898030618000337 Published online by Cambridge University Press

management, but he does not trace these policies back to their origins in the 1950s and 1960s: John T. Woolley, "Exorcising Inflation-Mindedness: The Transformation of Economic Management in the 1970s," *Journal of Policy History* 10, no. 1 (1998): 131–52. See also Benjamin C. Waterhouse, "Mobilizing for the Market: Organized Business, Wage-Price Controls, and the Politics of Inflation, 1971–1974," *Journal of American History* 100, no. 2 (September 2013): 454–78.

6. The most thorough historical accounts of the guideposts, written amid the background of the Great Inflation of the 1960s and 1970s, adhere to a rigid presidential synthesis that obscures the continuities with economic and political thought over the entire postwar period: John Sheahan, *The Wage-Price Guideposts* (Washington, D.C., 1967).William J. Barber, "The Kennedy Years: Purposeful Pedagogy," 159–91; and James L. Cochrane, "The Johnson Administration: Moral Suasion Goes to War," in *Exhortation and Controls*, 193–292,

7. Robert Leeson, "The Political Economy of the Inflation-Unemployment Trade-off," *History of Political Economy* 29, no. 1 (1997): 117–56; Daniel J. B. Mitchell and Christopher L. Erickson, "The Concept of Wage-Push Inflation: Development and Policy" *Labor History* 49, no. 4 (November 2008): 417–38; Norikazu Takami, "The Baffling New Inflation: How Cost-Push Inflation Theories Influenced Policy Debate in the Late-1950s United States," *History of Political Economy* 47, no. 4 (2015): 605–29.

8. Grant McConnell, *Steel and the Presidency: 1962* (New York, 1963); George J. McManus, *The Inside Story of Steel Wages and Prices, 1959–1967* (New York, 1967). The imperfect results of wage-price policy sometimes receive credit for encouraging Kennedy to embark on his strategy of tax reduction to boost economic performance, but the critical developments of the wage-price guidepost program are reduced to a misguided side project: Kim McQuaid, *Big Business and Presidential Power: From FDR to Reagan* (New York, 1982), 199–222; Irving Bernstein, *Promises Kept: John F. Kennedy's New Frontier* (Oxford, 1991), 140–46; 372–453; Herbert Stein, *Presidential Economics: The Making of Economic Policy from Roosevelt to Clinton,* 3rd rev. ed. (Washington, D.C., 1994), 104–6; Arthur M. Schlesinger Jr., *A Thousand Days: John F. Kennedy in the White House* (New York, 2002), 630–36.

9. Bradford DeLong, "America's Peacetime Inflation: The 1970s," in *Reducing Inflation: Motivation and Strategy,* ed. Christina D. Romer and David H. Romer (Chicago, 1997), 247–80; Julian Zelizer, *Taxing America: Wilbur D. Mills, Congress, and the State, 1945–1975* (Cambridge, 1998); Robert J. Samuelson, *The Great Inflation and Its Aftermath: The Past and Future of American Affluence* (New York, 2008); Iwan Morgan, "The Keynesian Consensus and Its Limits," in *The Liberal Consensus Reconsidered: America Politics and Society in the Postwar Era,* ed. Robert Mason and Iwan Morgan (Gainesville, 2017), 86–107.

10. Arthur F. Burns, *The Anguish of Central Banking* (Belgrade, 1979).

11. Abba P. Lerner, "Money as a Creature of the State," *American Economic Review* 37, no. 2 (May 1947): 312–17; M. W. Reder, "The Theoretical Problems of a National Wage-Price Policy," *Canadian Journal of Economics and Political Science* 14, no. 1 (February 1948): 46–61.

12. The classic explanation of the internal dilemma of the Bretton Woods system is: Robert Triffin, *Gold and the Dollar Crisis: The Future of Convertibility* (New Haven, 1961). For background on Bretton Woods: Michael D. Bordo, "The Bretton Woods International Monetary System: A Historical Overview," in *A Retrospective on the Bretton Woods System: Lessons for International Monetary Reform,* ed. Michael D. Bordo and Barry Eichengreen (Chicago, 1993), 3–108.

https://doi.org/10.1017/S0898030618000337 Published online by Cambridge University Press

13. H. W. Singer, "Wage Policy in Full Employment, *Economic Journal* 57, no. 228 (December 1947): 438–55; Abba P. Lerner, "The Inflationary Process: Some Theoretical Aspects," *Review of Economics and Statistics* 31, no. 3 (August 1949): 193–200; Seymour E. Harris, "The Inflationary Process: In Theory and Recent History," *Review of Economics and Statistics* 31, no. 3 (August 1949): 200–210.

14. Paul A. Samuelson, *Economics: An Introductory Analysis* (New York, 1948), 409–43; 529–31.

15. Cabinet Meeting of 14 December 1956, Box 8, Dwight D. Eisenhower, Papers as President of the United States, 1953–61 (Ann Whitman File), Cabinet Series, Dwight D. Eisenhower Library, Abilene, Kans.

16. Dwight D. Eisenhower, "Annual Message to the Congress on the State of the Union," 10 January 1957, in Gerhard Peters and John T. Woolley, *The American Presidency Project*, http://www.presidency.ucsb.edu/ws/?pid=11029.

17. Memo, C. L. Schultze to Raymond Saulnier, 25 January 1957, re: Notes for pp. 5 and 6 of suggested questions submitted by Grover Ensley, JEC Hearings 1957 (Preparation of Materials), Box 16, Records of the Office of the Council of Economic Advisers, 1953–61, Eisenhower Library.

18. "RJS Notes re: FRB Luncheon April 30, 1957," 3 May 1957, Box 7, Federal Reserve Board, Chairman, Conference with, 1957–60, Raymond J. Saulnier Papers, Eisenhower Library.

19. Raymond J. Saulnier, *Constructive Years: The U.S. Economy under Eisenhower* (Lanham, Md., 1991), 93–127; William M. McClenahan Jr. and William H. Becker, *Eisenhower and the Cold War Economy* (Baltimore, 2011), 81–110.

20. Christina D. Romer and David H. Romer, "A Rehabilitation of Monetary Policy in the 1950's," *American Economic Review* 92, no. 2 (May 2002): 121–27.

21. Letter, Milton Friedman to Saulnier, 8 February 1957; Letter, Neil Jacoby to Saulnier, 29 January 1957, "Economic Report 1957, Comments on [Non-governmental]," Box 11, Records of the Office of the Council of Economic Advisers, Eisenhower Library.

22. John Kenneth Galbraith, *The Affluent Society* (Boston, 1958), 167–96, 237–39. See also John Kenneth Galbraith, "Does Monetary Policy Really Work?" *Vital Speeches of the Day* (1958), 534–36. [His answer was, of course, no.]

23. Paul A. Samuelson and Robert M. Solow, "Analytical Aspects of Anti-Inflation Policy," *American Economic Review* 50, no. 2 (May 1960): 177–94.

24. Arthur F. Burns and Paul A. Samuelson, *Full Employment, Guideposts, and Economic Stability* (Washington, D.C., 1967), 53–56.

25. Paul Samuelson, Prospects and Policies for the 1961 American Economy: A Report to President-Elect Kennedy, 6 January 1961, "Recovery Program 12/60–1/61," Box 20, Walter W. Heller Personal Papers, #103, John F. Kennedy Presidential Library, Boston.

26. Notes on Meeting with President Elect Kennedy Attended by Samuelson, Sorenson, Tobin, and Heller, 5 January 1961, The Heller Council 1/61, Box 3, Heller Papers, Kennedy Library.

27. U.S. Congress, Senate, Committee on Banking and Currency, *Nominations of George Docking, Walter W. Heller, Kermit Gordon, and James Tobin, Hearing before the Committee on Banking and Currency*, 87th Cong. 1st sess. (Washington, D.C., 1961).

28. Memo, Heller to Solow, 20 February 1961, The Heller Council 2/61–3/61, Box 3, Heller Papers, Kennedy Library.

https://doi.org/10.1017/S0898030618000337 Published online by Cambridge University Press

29. Memo, Kermit Gordon, Notes on Meeting with the President on Monetary Policy, 12 June 1961; Memo, James Tobin to the Files, 28 August 1961, re: Meeting with Chairman Martin and the President on 25 August, Meetings with JFK 1961, Box 6, Heller Papers, Kennedy Library.

30. Memo, Heller to the President, 2 August 1961, re: The Price Situation in General (and Steel in Particular), Steel 5/61–12/61, Box 21, Heller Papers, Kennedy Library.

31. Memo, Heller to Arthur Goldberg, 29 December 1961, Council of Economic Advisers, December 1961, Box 73; Letter, Heller to S. L. Cate, 27 June 1962, Council of Economic Advisers, June 1962: 16–30, Box 74, President's Office Files, Kennedy Library.

32. Arthur Goldberg's History of the Steel Crisis, c. 1963, Steel 4/31/62–6/28/62, Box 39, Theodore Sorensen Papers, Kennedy Library, 2–4; Memo, Heller to Tobin, 18 August 1961, re: Steel Prices, Steel 5/61–12/61, Box 21, Kennedy Library.

33. Notes of Meeting, 21 June 1961, Meetings with JFK 1961, Box 6, Heller Papers, Kennedy Library.

34. Circular, Kennedy to Steel Executives, 7 September 1961, Council of Economic Advisers, September 1961, Box 73, President's Office Files, Kennedy Library.

35. Roger M. Blough, *The Washington Embrace of Business* (New York, 1975), 77–78.

36. Memo, Heller to the President, 13 October 1961, Memos to JFK 10/4/61–10/16/61, Box 5, Heller Papers, Kennedy Library; "The Economic Future and Government Policy," Remarks of Walter Heller Before American Life Convention, Chicago, 13 October 1961; "Prices, Wages, and the Public Interest," Remarks of Walter Heller before the Business Council, Hot Springs Virginia, 20 October 1961, Council of Economic Advisers, October 1961, Box 73, President's Office Files, Kennedy Library.

37. Kermit Gordon and Walter W. Heller Oral History Interview, Conducted by Joseph Pechman, JFK #1, 7/20/1965, Kennedy Library; Lloyd Ulman, "Unions, Economists, Politicians, and Incomes Policy," in *Economics in the Public Service: Papers in Honor of Walter W. Heller,* ed. Joseph A. Pechman and Walter W. Heller (New York, 1982), 112–44; Lloyd Ulman, An Oral History, Interview by Riyad Koya, (2011), Regional Oral History Office, Bancroft Library, UC Berkeley, 110.

38. "Economic Report of the President, Transmitted to the Congress, January 1963" (Washington, D.C., 1963), 185–90.

39. "The Wage-Price Guideposts," *Conference Board Business Management Record* (May 1963), 22–31.

40. *Economic Report 1962*, 16–17, 185; Memo, Heller to the President, 14 February 1962, re: The British White Paper on Wage Policy, Memos to JFK 2/62, Box 5, Heller Papers, Kennedy Library.

41. Memo, Heller to Goldberg, 29 December 1961, Council of Economic Advisers, December 1961, President's Office Files, Box 73, President's Office Files, Kennedy Library.

42. David McDonald Oral History Interview, JFK #1 02/15/1966, Interviewed by Charles T. Morrissey, Kennedy Library, 13–14.

43. Memo, Heller to the President, 10 April 1962, Council of Economic Advisers, April 1962, Box 74, President's Office Files, Kennedy Library.

44. "Exhibit D, Press Release, United States Steel Corporation, April 11, 1962," in Blough, *The Washington Embrace of Business*, 128–29; Arthur Goldberg's History of the Steel Crisis, c. 1963, Steel 4/31/62–6/28/62, Box 39, Theodore Sorensen Papers, Kennedy Library.

https://doi.org/10.1017/S0898030618000337 Published online by Cambridge University Press

45. McDonald Oral History, 15.

46. Arthur Goldberg's History of the Steel Crisis, c. 1963, Steel 4/31/62–6/28/62, Box 39, Soresen Papers; Memo, Robert F. Kennedy to John F. Kennedy, "Increase in the Price of Steel," 12 April 1962, Justice, 1962: April–June, Box 80, President's Office Files, Kennedy Library; United States, Congress, Senate, Committee on the Judiciary, Subcommittee on Antitrust and Monopoly, *Refusal of Certain Steel Companies to Respond to Subpenas Issued April 12, 1961* (Washington, D.C., 1962).

47. Edward Gudeman, recorded interview by Dan B. Jacobs, 22 September 1964, 9–13, John F. Kennedy Library Oral History Program.

48. Memo, Evelyn Lincoln to James Tobin, 23 April 1962; Memo, Tobin to the President, 21 April 1962, re: Prices in Europe, Council of Economic Advisers, April 1962; Memo, Tobin to the President, 13 May 1962, re: French Planning and Our Growth Policy Committee," Council of Economic Advisers, May 1962: 6–15, Box 74. President's Office Files; Memo, Tobin to the President, 21 May 1962, Council of Economic Advisers, May 1962: 16–31, Box 74, President's Office Files, Kennedy Library.

49. "Remarks to White House Conference on National Economic Issues"; "Remarks of the President to the Economic Conference," 21 May 1962; Remarks to White House Conference on National Economic Issues, Box 38, President's Office Files, Speech Files, Kennedy Library.

50. Memo, "The Present Decline in Perspective," 29 May 1962, Council of Economic Advisers, May 1962: 16–31, Box 74, President's Office Files, Kennedy Library. On indicators: Memo, Heller to the President, 25 July 1962, re: Leading Business Cycle Indicators, Council of Economic Advisers, 6/2/62–8/22/62, Box 31, Sorensen Papers, Kennedy Library.

51. Collins, *Business Response,* 173–90; Stein, *Fiscal Revolution*, 385–421; Memo, Gudeman to Heller, June 5, 1962, Memos to JFK 6/62; Memo, Heller to the President, July 14, 1962, re: Meeting with Members of the Business Council, Memos to JFK 7/62, Box 5, Heller Papers, Kennedy Library.

52. Council of Economic Advisers Oral History Interview, JFK #1, 1 August 1964, by Joseph Pechman, note 5a, John F. Kennedy Library Oral History Program, Kennedy Library.

53. "Strike Policy and Compulsory Arbitration," *Conference Board Business Management Record* 25, no. 5 (May 1963): 3–12; Charles Bartlett, recorded interview by Fred Holborn, 6 January 1965, 113–14, John F. Kennedy Library Oral History Program.

54. Memo, Heller to the President, 23 April 1963, re: Inflation; Council of Economic Advisers, 3/25–63–4/24/63, Box 31, Sorensen Papers, Kennedy Library.

55. Memo, Heller to the President, 24 July 1963, re: Martin's Posture of Passive Resistance; Memos to JFK 7/63, Box 6, Heller Papers, Kennedy Library.

56. John Lewis, Draft of Policy Position on Wages and Prices, 30 November 1963; Price Wage 1 of 2, Box 41, Kermit Gordon Papers, Kennedy Library; Memo, Heller to the President, 23 November 1963, re: Summary Review of the Economic Situation and Pending Issues, Memos to the President November–December 1963, Box 13, Gardner Ackley Papers, 1936–99, Bentley Historical Library, University of Michigan, Ann Arbor.

57. Confidential Notes of CEA Meeting, 21 September 1963, The Heller Council, 7/63–12/63, Box 4, Heller Papers, Kennedy Library.

58. Memo, Heller to the President, October 2, 1963, re: Administration Posture on Steel, Council of Economic Advisers, October 1963: 1–7, Box 76, President's Office Files, Kennedy Library.

https://doi.org/10.1017/S0898030618000337 Published online by Cambridge University Press

59. Memo, Lewis to Heller, 10 December 1963, Documentary Supplement Part II [1 of 2], Box 2, Administrative History of the Council of Economic Advisers Administrative History, Lyndon B Johnson Presidential Library, Austin.

60. "Economic Report of the President: Transmitted to the Congress, January 1964" (Washington, D.C., 1964), 10–11, 97, 112–15. For examples of the public acceptance of 3.2 percent: "Johnson Sees Strong Economy in '64," *Wall Street Journal,* 21 January 1964, 3; Edwin L. Dale Jr., "Economic Report Marks Milestone," *New York Times,* 26 January 1964, F1. On Lewis, see John Lewis, Draft of Policy Position on Wages and Prices, 30 November 1963, Price Wage 1 of 2, Box 41, Gordon Papers, Kennedy Library.

61. Memo, Ackley to the President, 14 June 1965, re: The Steel Labor Negotiations; Memo, Ackley to the President, 15 June 1965, re: Steel Negotiations, Memos to the President, May–June 1965, Box 13, Ackley Papers, Bentley Library Memo.

62. Memo, Joseph Califano to Bill Moyers, 3 September 1965; Memo, Ackley to the President, 8 September 1965, re: The Steel Settlement and the Guideposts, EX LA 6/ Steel, 8/27/65–9/8/65, WHCF, Box 29, Johnson Library.

63. Letter, George E Reedy to the President, 3 January 1966, EX BE 4/Steel 1/3/66 [2 of 2], Box 13, WHCF, Johnson Library.

64. Telegram, Johnson to 7 Steel Executives, 2 January 1966; "Agenda," January 1966, EX BE 4/Steel 8/27/65–1/2/66; "Government Policies of Special Interest to the Steel Industry," 4 January 1966, EX BE 4/ Steel 1/4/66–3/23/66, Box 13, WHCF, Johnson Library.

65. See, for instance, J. H. Carmical, "Stocks Advance in Slow Session," *New York Times*, 5 February 1966, 35; Vartanig G. Vartan, "Stocks Stumble to Low for Year," *New York Times,* 22 February 1966, 41; Vartanig Vartan, "Stock Prices Sag as Pace Slackens" *New York Times*, 24 February 1966, 49.

66. National Bureau of Economic Research, Index of Wholesale Prices for United States [M0448CUSM350NNBR]; U.S. Bureau of Labor Statistics, Unit Labor Costs in Manufacturing, U.S. Dollar Basis, in the United States (DISCONTINUED) [USAULCM]; US. Bureau of Labor Statistics, Consumer Price Index for All Urban Consumers: All Items [CPIAUCNS], retrieved from FRED, Federal Reserve Bank of St. Louis, https://fred.stlouisfed.org/.

67. George L. Perry, "Wages and the Guideposts," *American Economic Review* 57, no. 4 (September 1967): 897–904. Solow would comment that while Perry did not conclusively prove that guideposts had worked, he also turned up no evidence that would cause an economist not to attribute causality to the guideposts: Robert M. Solow, "The Case Against the Case Against the Guideposts," in *Guidelines, Informal Controls, and the Market Place: Policy Choices in a Full Employment Economy*, ed. George P. Shultz and Robert Z. Aliber (Chicago, 1966), 46–47. Perry's findings would later be criticized for failing to account for changes in structural unemployment and changing inflationary expectations: Robert J. Gordon, "Wage-Price Controls and the Shifting Phillips Curve," *Brookings Papers on Economic Activity* 2 (1972): 385–421. Sidney Weintraub, a proponent of incomes policies during the 1970s, also noted that Perry had forgotten another potential causal factor that could explain why wages grew slower in the early 1960s than in the 1950s: Jimmy Hoffa was still in jail: Sidney Weintraub, "Incomes Policy: Completing the Stabilization Triangle" *Journal of Economic Issues* 6, no. 4 (December 1972): 105–22.

68. Memo, Ackley to the President, 25 April 1966, re: the Prospect for Prices, Memos to the President, April–May 1966, Box 13, Ackley Papers, Bentley Library.

https://doi.org/10.1017/S0898030618000337 Published online by Cambridge University Press

69. Martin, *Shifting the Burden,* 81–106; Zelizer, *Taxing America,* 255–82.

70. Memo, Ackley to the President, 22 November 1965, re: CEA's Meeting with Union Economists; Memo, Ackley to the President, 29 December 1965, re: Wage Guidepost for 1966, Memos to the President, November–December 1965, Box 13, Ackley Papers, Bentley Library.

71. Memo, W. Willard Wirtz to the President, 20 April 1966, re: Airlines Case, EX LA 6/ Airlines 11/23/63–7/8/66, WHCF, Box 20; Memo, Wirtz to the President, 23 July 1966, re: Airline Case; Memo, Ackley to Califano, re: Council Statement on the Proposed Airline Settlement, 1 August 1966; Press Release, 20 August 1966, EX LA 6 / Airlines 7/30/66–9/30/66, Box 21, Johnson Library.

72. Memo, Ackley to the President, 25 February 1967, re: Reactions to your Economic Policy Program, Memos for President, February 1967, Box 14, Ackley Papers, Bentley Library; Memo, Ackley to Califano, 21 December 1967, re: A Possible Approach to the Guidepost Discussion in the 1968 CEA Report, CF BE 5-2 Cost of Living (1967), Box 3, WHCF, Johnson Library.

73. U.S. Bureau of Labor Statistics, *Nonfarm Business Sector: Unit Labor Cost* [ULCNFB]; National Bureau of Economic Research, *Index of Wholesale Prices of Commodities Other Than Farm Products and Foods for United States* [M04193USM350NNBR], retrieved from FRED; Peter Lindert and Richard Sutch, "Table Cc1-2 Consumer Price Indexes for all items: 1774–2003," in *Historical Statistics of the United States*, ed. Susan Carter et al. (New York, 2006).

74. Letter, William McChesney Martin to the President, 8 April 1966, EX BE Business, Economics 7/28/65–5/28/66, Box 1, WHCF, LBJL.

75. Letter, William Martin to Johnson, EX FI 11–4 10/11/66–12/15/66, Box 60, WHCF, Johnson Library; Robert P. Bremner, *Chairman of the Fed: William McChesney Martin, Jr., and the Creation of the Modern American Financial System* (New Haven, 2004), 186–259; Alan H. Meltzer, *A History of the Federal Reserve*, vol. 2 (Chicago, 2010), 538–47.

76. Lyndon B. Johnson: "Statement by the President Upon Signing the Tax Bill," 28 June 1968, in *The American Presidency Project,* http://www.presidency.ucsb.edu/ws/?pid=28964.

77. U.S. Bureau of Economic Analysis, Gross National Product: Implicit Price Deflator [GNPDEF], retrieved from FRED.

78. Milton Friedman, "The Role of Monetary Policy," *American Economic Review* 58, no. 1 (March 1968): 1–17; Edmund S. Phelps, "Phillips Curves, Expectations of Inflation and Optimal Unemployment over Time," Economica, n.s. 34, no. 135 (August 1967): 254–81; Edmund S. Phelps, "Money-Wage Dynamics and Labor-Market Equilibrium," *Journal of Political Economy* 76, no. 4, Part 2: Issues in Monetary Research (July–August 1968): 678–711.

79. Richard Nixon, *Six Crises,* Centennial Edition (New York, 2013), 309–10.

80. Richard Nixon, *RN: The Memoirs of Richard Nixon* (New York, 1978), 31–32; William Safire, *Before the Fall: An Inside View of the Pre-Watergate White House* (Garden City, 1975), 509.

81. H. Erich Heinemann, "Humphrey, Nixon Agree on Economic Ends, Differ on Means," *New York Times*, 27 October 1968, 2; Richard F. Janssen, "Nixon's Economics," *Wall Street Journal*, 21 October 1968, 1.

82. Memo, William Safire to Objectives Group, 16 October 1969, re: Jawboning vs Backboning, EX BE Business-Economics [1 of 13] 1969, Box 1, White House Central Files, Richard M. Nixon Presidential Library, Yorba Linda, Calif.

https://doi.org/10.1017/S0898030618000337 Published online by Cambridge University Press

83. "Economic Report of the President: Transmitted to the Congress, February 1970" (Washington, D.C., 1970), 6, 33.

84. U.S. Congress, Senate, Committee on Banking and Currency, Subcommittee on Production and Stabilization, *Inflation: The Need for a More Balanced Policy Mix*, 91st Cong., 2nd sess. (Washington, D.C., 1970), 22–30; U.S. Congress, House of Representatives, Committee on Banking and Currency, *To Extend the Defense Production Act of 1950, as Amended*, 91st Cong., 2nd sess. (Washington, D.C., 1970), 7–12; Arthur M. Okun, "Political Economy: Some Lessons of Recent Experience," *Journal of Money, Credit and Banking* 4, no. 1, part 1 (February 1972): 35–36.

85. U.S. Congress, House of Representatives, Committee on Banking and Currency, *Defense Production Act Extension and Economic Stabilization Act, Report together with Minority Views and Additional Views,* 91st Cong. 2d sess., No. 91–1330 (Washington, D.C., 1970), 15–16.

86. "Text of Burns Speech on Steps to Fight Inflation and to Extend U.S. Prosperity," *New York Times,* 8 December 1970, 34.

87. See, for instance, Letter, Henry Ford II to the President, 31 December 1969, EX BE 5/69 National Economy [37 of 42], 4 December 1969; Letter, Thomas Patton to the President, 24 November 1969, EX BE 5/69 National Economy [40 of 42], 11–15 December; Letter, Edwin Gott to the President, 31 October 1969, EX BE 5/69 National Economy [41 of 42], 18–24 December 1969, Box 58, WHCF, Nixon Library.

88. *The Haldeman Diaries: Inside the Nixon White House: The Complete Multimedia Edition* (1996), 27 June 1971. I am grateful to Ryan Pettigrew of the Nixon Library for making the files on this outdated CD-ROM accessible.

89. Nixon, *RN,* 1:641.

90. Although it is often charged that Nixon threatened and cajoled Burns into adopting too expansionary of a monetary policy, the Federal Reserve's own erroneous beliefs in cost-push inflation and the value of full employment likely would have brought it to this policy conclusion in the absence of presidential manipulation: Thomas Mayer, *Monetary Policy and the Great Inflation in the United States: The Federal Reserve and the Failure of Macroeconomic Policy, 1965–1979* (Cheltenham, UK, 1999); Athanasios Orphanides and John C. Williams, "Monetary Policy Mistakes and the Evolution of Inflationary Expectations," in *The Great Inflation: The Rebirth of Modern Central Banking,* ed. Michael D. Bordo and Athanasios Orphanides (Chicago, 2013).

91. Arthur M. Okun, "Efficient Disinflationary Policies," *American Economic Review* 68, no. 2 (May 1978): 348–52; Memo, Charles Schultze to the President, 29 March 1977, re: Elements of a Comprehensive Anti-Inflation Strategy, Memo, Anti-Inflation [O/A 6338] [7], Box 144, Stuart Eizenstat Files, Domestic Policy Staff, Carter Library; Memo, Schultze to the President, 14 March 1978, re: Background on Inflation, BE 4-2 Confidential 1/20/77–8/16/78, Box BE-16, WHCF, Jimmy Carter Presidential Library, Atlanta.

92. Richard Nixon, "Special Message to the Congress Proposing Establishment of a Cost-of-Living Task Force," 2 August 1974, in *The American Presidency Project*. http://www.presidency.ucsb.edu/ws/?pid=4316.

93. W. Carl Biven, *Jimmy Carter's Economy: Policy in an Age of Limits* (Chapel Hill, 2002), 140–44, 202–4; Susan Belden, "Policy Preferences of FOMC Members as Revealed by Dissenting Votes," *Journal of Money, Credit and Banking* 21, no. 4 (November 1989): 432–41. See also Woolley, "Exorcising Inflation-Mindedness."

https://doi.org/10.1017/S0898030618000337 Published online by Cambridge University Press

94. Memo, Schultze to the President, 8 December 1980, COWPS Authorization, S.2352, Box 105, CEA Records, Carter Library.

95. Meltzer, *A History of the Federal Reserve*, 1008–1131; Marvin Goodfriend and Robert G. King, "The Incredible Volcker Disinflation," *Journal of Monetary Economics* 52 (2005): 981–1015; Iwan Morgan, "Monetary Metamorphosis: The Volcker Fed and Inflation," *Journal of Policy History* 24, no. 4 (2012): 545–71.

96. Draft, "Economic Issues, Wage and Price Controls"; Draft Position Statement, "Wage and Price Controls," 11 December 1979, Wage and Price Controls, Box 5, Doug L. Bandow Files; Issues, 4c. Inflation Guidelines; COWPS; Vol. Pay Adv. Com., Box 240, Reagan Campaign Papers, Ronald Reagan Presidential Library, Simi Valley; Ronald Reagan: "The President's News Conference," 29 January 1981, in *The American Presidency Project*. http://www.presidency.ucsb.edu/ws/?pid=44101. The wage-price regulatory program would be eliminated formally in Executive Order 12288 of the same date.

97. N. Gregory Mankiw, *Macroeconomics*, 7th ed. (New York, 2010), 398–99; Robert J. Gordon, "The History of the Phillips Curve: Consensus and Bifurcation," *Economica* 78 (2011): 25.

https://doi.org/10.1017/S0898030618000337 Published online by Cambridge University Press