Selling Keynesianism

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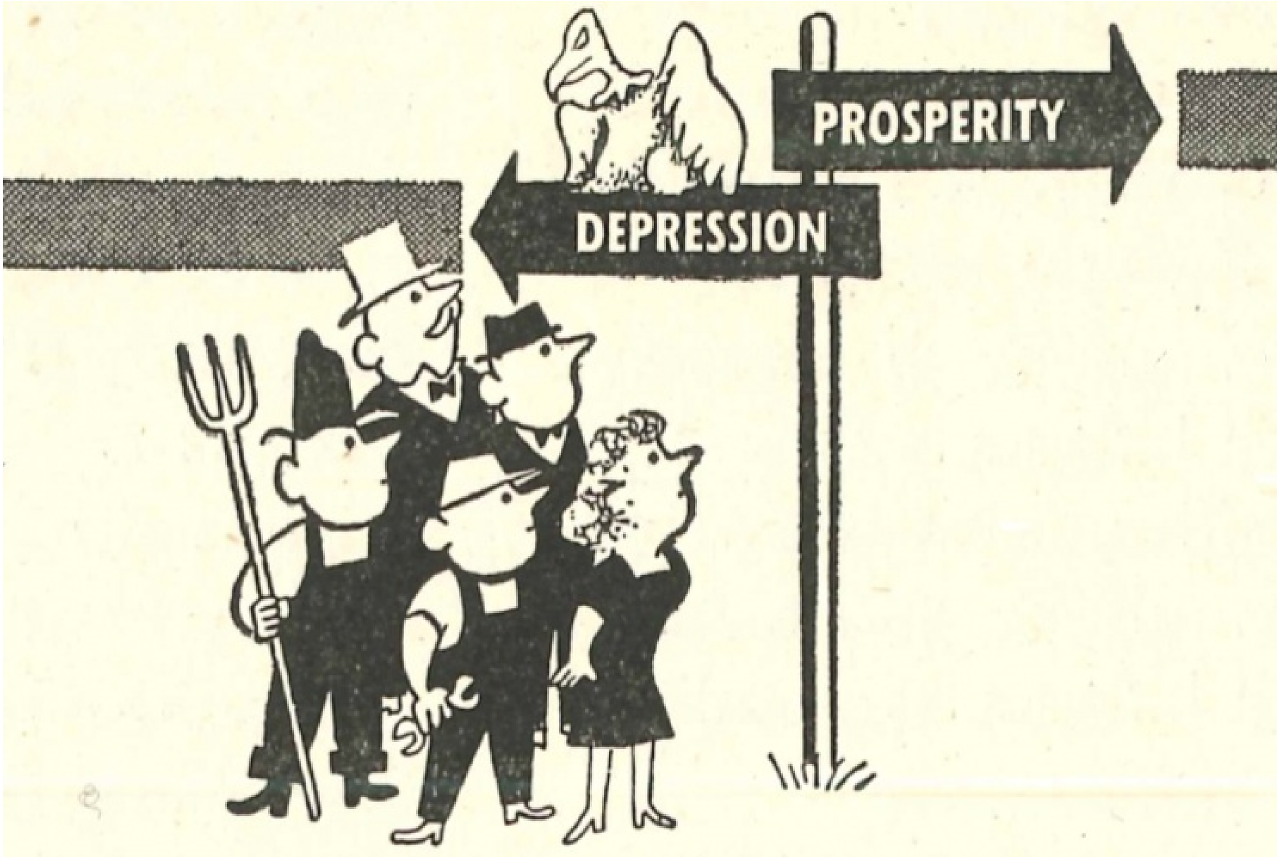

Class & Inequality

In the 1940s and ’50s, the general public understood and agreed upon Keynesian economic principles. Today, we can learn a lot from the popularizing efforts that led to that consensus and long-lasting economic success.

Robert Manduca

An illustration from *Tomorrow Without Fear* (1946), by Chester Bowles.

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“Let’s bring our editorial microscope into focus on a very significant phenomenon,” the video begins. “The middle-income consumer.”

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As a middle-aged white man comes into view, pushing a wheelbarrow full of recent purchases, the voiceover chronicles his recent exploits. “He has fed new demands into the production apparatus of industry, accounting for the housing boom, appliance sales, the rush for prepared foods.” Altogether, we hear, “the zoom in the American market after the war, the unprecedented volume of goods of all kinds, gobbled up by an insatiable tide of buyers, was largely the work of this middle-income man.”

After decades of praise heaped on “job creators,” viewers today may find it disorienting to see the consumer—and a middle-income one at that—cast as the hero of the economy, instead of the investor or the entrepreneur. Yet *Fortune*, which produced the video in 1956, was hardly an outlier. In the mid-twentieth century, advertising, popular press, and television bombarded Americans with the message that national prosperity depended on their personal spending. As *LIFE* proclaimed in 1947, “Family Status Must Improve: It Should Buy More For Itself to Better the Living of Others.” *Bride* likewise told its readers that when they bought new appliances, “you are helping to build greater security for the industries of this country.”

This messaging was not simply an invention of clever marketers; it had behind it the full force of the best-regarded economic theory of the time, the one elaborated in John Maynard Keynes’s *The General Theory of Employment, Interest and Money* (1936). The key to full employment and economic growth, many at the time believed, was high levels of aggregate demand. But high demand required mass consumption, which in turn required an equitable distribution of purchasing power. By ensuring sufficient income for less well-off consumers, the government could continually expand the markets for businesses and boost profits as well as wages. Conversely, Keynes’s theory implied, growing income inequality would lead to lower demand and slower economic growth.

The basic Keynesian logic of demand-driven growth came to be accepted across U.S. society in large part due to significant postwar efforts to explain, communicate, and popularize it. Proponents of Keynesian thinking worked hard to educate the public about the new economic theory and the possibilities of abundance that it foretold. A particularly compelling example is the book *Tomorrow Without Fear* (1946). Written by Chester Bowles, a former advertising executive turned wartime price czar, it turns Keynes’s dry economic theories into accessible and evocative prose. Drawing on the shared experiences of the Depression and World War II, it made the public case for the possibility and the necessity of mass affluence in postwar America.

Similar efforts—other prominent voices included John Kenneth Galbraith and Leon Keyserling—ensured that workers, the popular press, business executives, academic economists, and politicians on both sides of the aisle were largely on the same page: mass consumption among a broad swath of the populace was necessary to a thriving economy. This consensus propelled the fastest sustained rise in output and living standards the United States has ever seen, while also motivating government action to expand social insurance and protect living standards.

Tomorrow Without Fear turns Keynes’s dry economic theories into accessible and evocative prose.

Today, as we enter the second decade of recovery from the Great Recession, a growing debate has emerged around new economic ideas, and it remains as important as ever to pay attention to how exactly economic theories win broad public support. By examining the economic beliefs of a more prosperous time—including the popularizing efforts that led to their widespread adoption—we can more fully appreciate how to build new forms of consensus today.

What motivated public intellectuals, policymakers, and government officials such as Bowles to spend their nights and weekends translating economic theory for the general public? Part of the answer lies in the fact that the experiences of World War II and the Depression forged a unity and clarity of purpose among Americans that can be hard to fathom today. The experiences not only brought existential dread to the country, but also took it from one economic extreme to another.

During the 1920s, the government cut taxes and maintained a strict balanced budget in the hopes of sustaining high business confidence and investment. The guiding economic theory held that the primary limit on economic growth was supply (the total amount of labor and capital available). Some economists even thought that an increase in supply would inevitably generate a corresponding growth in demand, a kind of economic equivalent of "if you build it, they will come." But instead of sustained growth, this focus on investment created a bubble that culminated in the biggest bust in history.

Surveying the wreckage, Keynes realized that supply-side thinking got things backward. One glance at the 1930s economy made that clear: everywhere you looked there were recently shuttered factories, along with unemployment rates above 20 percent. Clearly the slump was not due to a lack of capacity to make things, but rather a lack of markets in which to sell them. This is the core Keynesian insight: economic catastrophe can be caused by inadequate demand, which will feed upon itself in a downward spiral. Demand shortfalls often originate with a tightening of investment, as businesses start to worry about having overcommitted. Once that happens, unless the government steps in with fiscal or monetary stimulus, unemployment will follow.

World War II put these ideas to the test, and they passed with flying colors. When the government stepped in and started buying things, U.S. businesses leapt to meet the challenge. Real GDP grew by 75 percent from 1940 to 1945. Industry had the ability to produce far more than most people had ever imagined; all it needed was a customer with the means to pay.

As the war ended, government officials and policymakers had to figure out what to do with this new industrial capacity. Should the country simply close down the new factories and return to the level of output and unemployment that it had in 1940? Or should it convert the capacity to peacetime use, and come up with new sources of demand to replace government arms spending? This question marked a subtle shift from

Keynesianism as a method of moderating business cycles to Keynesianism as a strategy for economic growth, with a whole cohort of postwar policymakers embracing the Keynesian idea that the key to avoiding mass unemployment was to ensure sufficient aggregate demand. As Robert Nathan, chair of the War Production Board's Planning Committee, put it, "If increased buying power can be gotten into the hands of consumers who will spend it for goods and services, American industry need not worry about finding markets for all it can produce, and produce profitably."

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Imbued with the patriotism and solidarity of the era, many officials felt it was their responsibility to reflect on these lessons and share them with their fellow Americans. Indeed, Bowles was not the only one explaining this vision for a new economic future. Nathan wrote his own book, *Mobilizing for Abundance* (1944), to explain how Keynesian economics could bring widespread prosperity after the war, as did journalist and future senator Blair Moody in *Boom or Bust* (1941) and Vice President Henry Wallace in *Sixty Million Jobs* (1945). Indeed, so invested were everyday Americans in restoring and contributing to the overall economy that when the Pabst Brewing Company sponsored a contest to come up with plans for postwar employment, it received nearly 36,000 entries.

Americans understood the stakes of the transition to peacetime. The connection between economic turmoil and political conflict was clear to those who had watched the rise of fascism in the 1920s and '30s. The development of atomic weapons meant that a third world war would almost certainly end civilization while, at the same time, the experience of war production offered the prospect of boundless opportunities and prosperity. This stark trade-off—civilizational annihilation on one hand, endless prosperity on the other—made it extremely important to get the transition right. And it was clear that doing so was only possible if the American people were brought fully on board.

Bowles grasped the importance of this communications role as deeply as anyone. He had made his first career in advertising, and his firm, Benton and Bowles, was perhaps the most successful ad agency of the Depression era. (It played a major role in developing the radio soap opera.) Part of his success as director of the Office of Price Administration during the war was his decision to turn it into a mass organization, mobilizing volunteers to distribute ration cards and monitor price levels, and in so doing take ownership of the agency. As his friend Galbraith said of him, "Few men in public life have had greater ability to get a problem into comprehensible form—where F.D.R. paraphrased to make an issue seem understandable, Bowles always kept the real situation in view."

Indeed, in *Tomorrow Without Fear*, Bowles pitched his explanations of Keynesian theory to resonate with Americans' intuitive, shared experience. Contrasting the booming wartime economy with the trepidation in 1940, for example, he asked: "Did we feel insecure in 1940 because we thought we couldn't produce all the goods and services we needed?" The answer, of course, is no, and Bowles goes on to identify this as "the baffling paradox of the times, the inability of people on every hand to find markets for the goods that people on every hand so badly needed!" Bowles's optimism is palpable, and it is an inclusive optimism—from the book's dedication to the men and women of the armed forces to its description of what life ahead might look like for every farmer, worker, and businessman. Throughout the book, Bowles pauses to marvel at the ingenuity of his fellow citizens. "It always surprises me," he begins one chapter, "that a people so proud of their achievements as we Americans often fail to realize how great some of these achievements actually are and how far we have come."

Despite their patriotism and optimism, however, Bowles and his contemporary prophets of abundance were under no illusions about the challenges that widespread prosperity, even if it were secured, would bring. In 1930 Keynes had anticipated the possibility of an end to scarcity in his essay "Economic Possibilities for our Grandchildren," speculating about the enormous cultural adjustment it would require. If the "economic problem" of subsistence—"hitherto the primary, most pressing problem of the human race"—was solved, then, Keynes wrote, "I think with dread of the readjustment of the habits and instincts of the ordinary man, bred into him for countless generations, which he may be asked to discard within a few decades. . . must we not expect a general 'nervous breakdown'?" Ever the ad man, Ever the ad man, Bowles in *Tomorrow Without Fear* translated this 'economic problem' into the difficulty of 'learning to live better.' Bowles in *Tomorrow Without Fear* translated this "economic problem" into the difficulty of "learning to live better." We know we can produce, he wrote. But what we don't yet know is if we can learn to "use our productive capacity to raise our standards of living, to lighten the burden of toil for all of our people." This learning curve would require a maturation of sorts, and "if we can't grow up with it . . . the very achievements of our science and technology will be our undoing. And what could be more ridiculous!"

Learning to live better was of such concern because a direct implication of Keynesian economic theory is that inequality is in itself harmful for growth. Keynes concluded *The General Theory* by stating, "The outstanding faults of the economic society in which we live are its failure to provide for full employment and its arbitrary and inequitable distribution of wealth and incomes." Other Keynesian thinkers would make the direct link between those two faults: high levels of inequality make unemployment more likely. As Marriner S. Eccles, chairman of the Federal Reserve from 1934 to 1948, put it, "as mass production economy has to be accompanied by mass consumption, mass consumption, in turn, implies a distribution of wealth . . . to provide men with buying power equal to the amount of goods and services offered by the nation's economic machinery." In Bowles's formulation, "the redistribution of income is a subject which many people find distasteful to talk about—much less to do something about. But talk about it and do something about it we must, because this is not a matter of taste; it is a matter of national economic necessity."

The key point is that businesses will only produce when there is demand for their products, otherwise they will shutter their facilities and lay off their workers. Because high-income people spend a smaller share of their earnings than low-income people do, high levels of income inequality result in lower levels of aggregate demand, the forerunner to recession and unemployment. Bowles demonstrated this logic by taking it to its extreme:

> Let us suppose that one percent of the population were to receive 95 percent of our entire national income, with the remaining 5 percent spread among the rest of us. Could our system—could any system—work on that basis? One percent of the people couldn't possibly consume 95 percent of all the goods and services which the rest of us could produce.

The long-lasting prosperity of the 1940s and '50s thus owed, in large part, to the fact that the general public broadly understood and agreed upon the economic principle that fast-paced growth and high employment could be achieved on the back of consumer demand, but only if purchasing power was distributed widely enough.

Once armed with this information, the general public went about enforcing it. As Lizabeth Cohen documents in *A Consumer's Republic* (2003), labor unions cited the importance of maintaining high demand through widely distributed purchasing power to justify their calls for higher wages. As George Meany, secretary-treasurer of the AFL, put it in 1944, "we have the machinery to build all of the automobiles, all of the radios, washing machines and such things; we have the workers to build all of the houses that we could possibly use. But we will not make those things unless there is purchasing power available to buy them."

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Across the negotiating table, business executives also acknowledged the need for mass consumer purchasing power. During the final years of World War II, the head of research for the magazine publisher McFadden told his audience of advertisers, "As every manufacturer knows . . . there can be no high levels of production and employment unless the products of industry are bought by the workers." Henry Ford used the same logic when he decided to pay his workers enough to buy the cars they made. Keeping wages low is penny wise, pound foolish.

Demand-side growth also had bipartisan support. President Harry Truman, a Democrat, made it a cornerstone of his economic policy and appointed pro-growth economist Leon Keyserling to lead the newly created Council of Economic Advisers. Ten years later, President Dwight Eisenhower, a Republican, supported the expansion of benefits for seniors as a means of boosting demand and getting the country out of the 1958 recession.

This era is commonly remembered as the Golden Age of Capitalism, and for good reason: the results of this consensus on demand-driven growth are hard to dispute. Productive capacity and living standards grew in lockstep for twenty-five years, at rates never yet equaled. This equitably distributed growth meant that children who lived through this era had a greater than 80 percent chance of outearning their parents as adults. Among today's young adults, the rate is just 50 percent.

What happened? Keynesian economics fell out of favor for a variety of reasons, from reluctant business executives who didn't want to lose leverage over their employees to classical laissez-faire economists in the 1970s who used the stagflation crisis to reassert the Victorian belief that government should not intervene in markets. This was the state of mainstream economics in 2007 when the Great Recession hit. That crisis brought about a "Return of Keynes" just in time to keep the economy from fully collapsing, and in 2008, even Robert Lucas—the developer of the rational expectations hypothesis that did much to undo Keynesianism—admitted that "everyone is a Keynesian in a foxhole."

Just as Keynes's star is rising once again among academics, Bowles's example of communicating the Keynesian vision in terms that people can understand—and care about—is starting to catch on in economics education. At Washington University in St. Louis, Steven Fazzari has developed an introduction to "Muddy Water" macroeconomics, explaining Keynes's theories—and those of his critics—in accessible language. At Harvard, Raj Chetty is teaching an economics based on empirical data, rather than parsimonious models. And most promising of all, a group of economists—which includes none other than Samuel Bowles, Chester Bowles's son—has created the CORE Econ project, an attempt to totally reinvent introductory economics, starting with the textbook itself. Where standard introductory economics textbooks cost While Keynesian thinking is beginning to resurface in the academy, it still has a long way to go in terms of shaping popular and policy discourse. upward of a hundred dollars a copy (the Harvard economist N. Gregory Mankiw, author of the widely used textbook *Principles of Economics*, has made as much as $42 million in royalties since the first edition was released in 1997), CORE's *The Economy* is available online for free. And where standard courses often begin with an abstract discussion of supply and demand, CORE is grounded in directly addressing contemporary challenges: income inequality is the subject of its textbook's first chapter.

Yet while Keynesian thinking is beginning to resurface in the academy, it still has a long way to go in terms of shaping popular and policy discourse. This is true even though Keynesian analysis seems singularly well suited to current troubles. Today we have almost unprecedented levels of income inequality combined with sustained low growth. We are still digging our way out from a massive economic slump whose root and proximate causes have remarkable parallels with those that animated Keynes. All of the ingredients that went into *The General Theory* and that showed the shortcomings of classical economics are present today as well.

This will be even more true going forward. Consider the case of automation, which many people fear will cause unemployment; Andrew Yang is running a whole presidential campaign on it. But as many have noted, it is not the robots themselves that we have to fear, but the continued decline of worker bargaining power. If incomes can be made to rise alongside automation—whether through higher wages, a shorter work week, or a universal basic income— we don't have anything to fear from robots. In fact, this is the world that Keynes dreamed of in "Economic Possibilities for Our Grandchildren." The reason we have come up short is not our technology but our political economy.

Keynesian economics offers the opportunity to connect the two largest economic problems of our time—slow growth and extreme inequality—with a compelling theory that the latter causes the former. After all, large numbers of businesses today are struggling because their core consumers no longer have the money to buy their products. Even wealthy investors are struggling with what the business press calls "capital superabundance." There is far more money to invest than there are promising investment opportunities, which keeps returns down. At its most fundamental level, this problem is a shortfall of demand: just as in the 1930s, the capital exists to produce far more than we currently do, if only the people who need things had the money to buy them.

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To a Keynesian, the way to revive and stabilize economic growth is to increase the purchasing power of low- and middle-income consumers. A Keynesian growth program would thus allow room for some traditionally conservative constituencies to get on board with progressive policies such as child allowances, a job guarantee, and a fifteen dollar minimum wage. Far from being a drain on the economy, these policies are our tickets out of secular stagnation.

Keynesian economics also carries a positive moral message. Unlike the "Greed is good" mantra of the 1980s, Keynesian analysis argues that selfishness leads to ruin and that you should help your neighbor. Bowles makes this point well in *Tomorrow Without Fear*:

> In our modern world, for the first time in history, what makes good morals makes good economics, too. As we organize our economy to provide more and better food for the hungry, the corner grocer and the farmer find their incomes increased... Greater equity in sharing our economic pie costs no one anything. Instead it means a bigger pie for all of us to share and, hence, more pie for every one of us.

While it is dramatic in its ambitions, the Keynesian approach is far from a risk: no other strategy has been tested so thoroughly and with such great success. As Bowles understood, the key is to communicate it.

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