Liberalism and Inflation in the 1970s

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Economic issues were the making of modern liberalism in the 1930s and seemingly the unmaking of it in the 1970s. Amidst the Great Depression, Franklin D. Roosevelt declared that liberalism was “plain English for the changed concept of the duty and responsibility of the government toward economic life.” Amid the Great Inflation, by contrast, Ronald Reagan placed the blame on runaway price instability on the excesses of the liberal state created by the New Deal and expanded by FDR’s Democratic successors. In a typical expression of this viewpoint, he declared in a 1977 radio address: “Inflation is caused by one thing – government spending more than government takes in.”

Anxiety about inflation became deeply woven into the American public’s psyche in the 1970s. The Consumer Price Index [CPI], which had started to rise after nearly twenty years of low inflation in the second half of the 1960s, accelerated dramatically from 1973 onward. It increased by nearly 9 percent on annual average from 1973 through 1980, compared with 4.5 percent in 1967-1972, to culminate in double-digit inflation in 1979 (11.3 percent) and 1980 (13.5 percent). The Great Inflation was initially sparked by the Vietnam War’s over-stimulation of a full-employment economy. It was subsequently fuelled by: the OPEC oil-price shocks of 1974 and 1979; global rises in food and commodity prices; the declining value of the dollar after final termination of post-war currency fixed-exchange rates in 1973; and the declining productivity of the American economy. Other than in brief re-conversion periods after the world wars (inflation had run at 14.4 percent in 1947), the chronic price instability of the 1970s had no twentieth century precedent. Unsurprisingly, therefore, inflation was consistently placed top by large margins in Gallup polls asking respondents to identify the nation’s most serious problem from 1973 through 1980 – over
three-quarters doing so in 1974 and 1979. This was a trend confirmed in private polls for the Carter White House, prompting presidential adviser Jerry Rafshoon to warn his boss that inflation “affects every American ... causes insecurity and anxiety ... threatens the American Dream.”²

Carter’s ultimately unsuccessful and increasingly conservative policy responses to inflation have been extensively examined in the historical literature.³ Far less attention has been paid by comparison to how liberal Democrats who still identified with the NewDeal-Great Society tradition responded to inflation over the course of the 1970s. Much of what has been written tends to portray their economic policy ideas regarding price stability as outmoded, irrelevant and intellectually bankrupt. Even a sympathetic historian like Sean Wilentz commented, “New Deal liberalism, with no ready solution [for inflation] seemed to have run out of steam; it was more apt to look back on the glory days of yore than to propose coherent policies for the present and future.”⁴ Taking a different approach in this paper, I argue that the policy solutions that liberals proposed to combat inflation were not mere retreads of old orthodoxy but rational adaptations to new conditions that deserve reassessment by historians.

The starting point for understanding liberals’ response to inflation in the 1970s is their belief that high unemployment was a greater problem than price instability in this time of stagflation. In the 1960s 4 percent joblessness had been considered the hallmark of an effective full-employment economy. However, unemployment averaged 6.3 percent yearly in 1970-1980 and there were three recessions with joblessness peaks of 6.1 percent in 1970, 9 percent in 1975, and 7.8 percent in 1980. The sixteen-month recession of November 1973-March 1975 saw unemployment reach its highest level since the Great Depression and the 3.4 percent decrease in real GDP percent was the largest in any downturn between the Great Depression of the 1930s and the Great Recession of 2007-09.
In these circumstances, liberal Democrats insisted that jobs rather than stable prices had to be the main focus of economic policy. “The key issue, as I see it,” Senator Hubert Humphrey of Minnesota declared in late 1975 when inflation was running at 7 percent and joblessness at 8.3 percent, “is what to do about the pervasive, persistent, stubborn unemployment.” Such sentiments were to be expected from the venerable champion of the old liberalism, but they were shared across the liberal spectrum of the party. Congressman Henry Reuss of Wisconsin, chairman of the House Banking, Currency and Housing Committee, asserted in 1976 that a full-employment economy would solve the inflation problem by creating more savers and making organized labor more amenable to accepting a social contract on wage targets that did not exceed productivity rates. The necessity for job-creating stimulus to strengthen recovery from the mid-decade recession was also the message that pragmatic liberals like House Speaker Tip O’Neill of Massachusetts trumpeted in early congressional leadership meetings with the new Carter administration.5

Indeed Democrats of all varieties were broadly agreed that jobs constituted the main economic priority until the hyperinflation of 1979-80 created a divide between liberals on the one hand and centrists and conservatives on the other. In April 1976 a Harvard Center for International Affairs/Washington Post survey asked county committee chairs, state committee members and national committee members of both parties to rank the nation’s top ten problems. The Democrats put unemployment top and inflation second; in contrast, Republicans placed inflation top and unemployment sixth (behind reducing the role of government, maintaining a strong defense, developing energy resources, and reducing crime).6

Ironically, the most significant expression of liberalism’s commitment to jobs in the 1970s, the Full Employment and Balanced Growth Act (better known as Humphrey-Hawkins after its main sponsors, Senator Hubert Humphrey and Representative Gus Hawkins of
California) was widely considered symptomatic of its proclivity to fuel inflation in pursuit of its traditional agenda. Proposed in 1976 as an amendment to the Employment Act of 1946, the original bill mandated a reduction of unemployment to 4 percent within three years and made the federal government the employer of last resort through establishment of a public jobs program if the private sector could not generate full employment. Dismissed forever more by conservative analysts as, in the words of one economist, “the last product of New Deal thought,” it has been defended by progressive sympathizers as providing a way of “rejoining African-American policy interests to the mainstream of economic policy” through its class-based focus on jobs and prosperity for all rather than race-based compensation.

The measure predictably came under attack from big business and Republicans as an expensive and inflationary expansion of the state’s role in the economy. More damagingly it also met with criticism from the incoming Carter administration and many congressional Democrats elected in the freshman cohorts of 1974 and 1976. Articulating their concerns that it would aggravate inflation, Brookings Institution economist and Carter CEA chair Charles Schultze asserted that public service jobs should be counter-cyclical rather than permanent and that the proposal to pay the prevailing wage for such work would bid up wages for low-skilled and semiskilled jobs in the private sector.

Without doubt, Humphrey-Hawkins was far from perfect in its conception. The original proposal undeniably engaged in what John Kenneth Galbraith, who sympathized with its aims, dubbed “wishful economics” in assuming that public job creation would simultaneously solve both unemployment and inflation. As Humphrey himself acknowledged, the original bill contained inadequate safeguards against inflation because it incorporated so many provisions demanded by core Democratic constituencies. “The AFL and CIO were adamant [about their requirements],” he told economist Walter Heller, “… and the Black Caucus wanted everything they could possibly think of plus another ten to fifteen
percent.” Humphrey-Hawkins also overestimated government’s capacity to fine-tune a domestic economy that was becoming increasingly open and complex as a result of new technology, financial innovations, and America’s growing integration into the international economy.

Nevertheless, leading manpower economist C. C. Killingsworth lauded the measure as the first step toward a rational labor policy that would have lesser inflationary consequences than consumption-driven stimulus measures, which tended to widen the trade deficit and aggravate inflationary pressures. It was also clear that the private economy was unable to create sufficient jobs. Although unemployment declined steadily from 7.5 percent in early 1977 to 6 percent by mid 1978, at least half of this decline resulted from the creation of new Public Service Employment jobs. In total some two million people benefited from work opportunities provided by this and other government programs in the first year-and-a-half of Carter’s presidency. Without this support, joblessness would have been more than two percentage points higher at between 8.0 and 8.5 percent of the labor force. Finally, Humphrey-Hawkins sought to provide a race-neutral work-not-welfare solution to the excessively high unemployment among African Americans, the group worst hit by the effects of both cyclical factors and structural changes in the economy.12

Looking to paper over its growing rift with traditional Democratic constituencies, the Carter administration eventually agreed to enactment of a much scaled-down measure in 1978. Not only did this lack a public jobs provision but also it allowed for a longer time scale to achieve 4 percent unemployment by 1983 tied with an inflation target of 4 percent and have the president latitude to adjust the employment goals if anti-inflation imperatives required. As civil rights leader Bayard Rustin observed, “the inclusion of the ‘inflation goals’ will lead government officials – particularly economic policy makers – to regard the employment goals rather casually.”13
As Judith Stein has observed, Carter regarded enactment of Humphrey-Hawkins “as a political obligation, not a political opportunity” and his administration’s evisceration of its full-employment provisions testified that jobs did not constitute its economic priority. As inflation worsened in the late 1970s, however, liberal Democrats and liberal-oriented interests inside and outside the party continued to fight to preserve its traditional commitment to high employment. In early 1978 the AFL-CIO proclaimed, “The foundations of an anti-inflation program must be full-employment and full production that will produce a balanced economy and reduce inflationary pressures by eliminating waste and inefficiency from underutilized plant and equipment and an underemployed work force.” A year later, the New Republic, in a lead article entitled “Liberals and Inflation,” went further in declaring that a government guaranteed job for anyone able to work and a guaranteed decent minimum annual income for all had to be “the cornerstone of a liberal inflation program.” In its view this would increase demand for unskilled and semiskilled labor, which was in excess supply, without increasing demand for the kind of labor that was not in excess supply. To pay for this, it urged cutbacks in federal transfer programs deemed no longer central to the liberal vision, including social security, veterans’ benefits, some in-kind benefits for the poor, and tax expenditures.14

The short sharp recession of 1980 appalled liberals as a policy-induced downturn that did nothing to alleviate double-digit inflation. The rise in unemployment was instrumental in briefly reviving Edward Kennedy’s flagging presidential campaign, helping him gain primary victories in Connecticut, New York, Pennsylvania, and New Jersey.15 It was also the critical factor in the decision of the Liberal Party of New York, which had supported the Democratic candidate in every presidential election since is founding in 1944, to give its backing to independent candidate John Anderson in 1980. “We cannot accept deliberate recession accompanied by increasing unemployment as a means of controlling inflation,” the party’s chair, Donald Harrington, wrote Carter prior to its nominating convention. The president’s
response, a rote defense of his efforts to boost jobs that largely ignored the proposal in Harrington’s accompanying policy memorandum for a “domestic ‘Marshall Plan’” with full-employment policy as its core element, did nothing to revive Liberal Party enthusiasm for him.16

All this did not mean that liberals were unconcerned about inflation. Rather they were unprepared to fight it through means that would not only increase unemployment but also disproportionately impact on Americans in the lower half of the income distribution. Their animus against macroeconomic restraint was mainly directed against Federal Reserve monetary policy. The central bank’s sharp interest-rate hikes to douse inflation had precipitated a short recession in 1970 and, in response to the oil-price shock, the deeper one of 1974-75. Carter’s decision to appoint inflation hawk Paul Volcker as Fed chair in mid 1979 caused trepidation in liberal circles that more of the same would follow.

Liberals consulted by the search committee to recommend the appointment (Vice President Walter Mondale, Keynesians Walter Heller and Arthur Okun, and AFL-CIO chief Lane Kirkland) had adamantly opposed Volcker. In Okun’s assessment, Volcker was “very right wing” and “dominated by international concerns [about the dollar].”17 However, the refusal of any other credible candidate to take the post left him the last man standing. Volcker’s shock therapy of money-supply control rather than conventional interest-rate manipulation was widely blamed by liberals for the second-quarter recession of 1980. Despite its private doubts about Fed strategy, the White House defended Volcker in public and refused to support calls for monetary ease in order to preserve credibility with the money markets that were in panic over the inflation rate. Carter also rebutted calls for Volcker to resign from AFL-CIO boss George Meany and others. This stand served to tie the administration to the unpopular policies of the central bank in the eyes of liberals18
Fiscal restraint was also anathema to liberals if this targeted programs that traced their pedigree to the New Deal tradition. For its last thirty months in office the Carter administration grew increasingly determined to progress towards a balanced budget to reassure the money markets, prevent public-sector ‘crowding out’ of private-sector borrowing, and douse inflationary psychology. The deteriorating relations between liberals and the Carter administration over their differing fiscal priorities reached crisis point with the White House announcement in late 1978 of an austerity anti-inflation budget plan for Fiscal 1980. This featured significant social program cuts not only to reduce the deficit but also permit a 3 percent real expansion of defense as part of America’s NATO commitment in the face of Soviet military expansion. At the midterm Democratic convention in Memphis in December, a resolution critical of these proposals, offered by United Automobile Workers president Douglas Fraser, gained support from 40 percent of the delegates. Presaging Carter’s 1980 problems in New York, left-leaning members of the state delegation (Bella Abzug, Shirley Chisolm, Herman Badillo, and Michael Harrington) were very active in promoting this. A White House aide commented with considerable understatement that New York City Democrats “are not crazy about us.”

Instead of monetary restraint and social program retrenchment, liberals broadly supported three approaches to tackling inflation. They were prepared to cut spending on areas outside their core agenda. This was particularly the case with regard to defense, which also served their post-Vietnam anti-militarist preferences until the renewal of Cold War tensions in 1979-80. Reflecting their influence, the 1976 party platform had called for détente-facilitated cuts of $5-7 billion in defense outlays (equivalent to 6.0-7.8 percent of actual FY1976 spending), a goal that Carter ignored when in office. In a political trade-off, liberal Democrats later agreed to soft-peddle their opposition to Carter’s FY1980 military increases in return for moderate and conservative Democratic agreement to increase social
spending. The Soviet invasion of Afghanistan in late 1979 thereafter inhibited liberal calls for deep military cuts. Nevertheless Edward Kennedy in his campaign for the Democratic presidential nomination attacked Carter’s FY1981 budget plan for defense as wasteful, inflationary and arbitrary in its insistence on a 5 percent real increase in military spending. Insisting that savings could be found without damage to America’s strategic interests, he declared, “National security cannot be purchased by merely spending additional sums. Defense resources must be effectively directed toward actual military needs.”

Another means of fighting inflation that held particular appeal for liberals was to tackle administered price increases. Many associated this problem with economic regulation because of the ‘cosy triangle’ relationship between the regulated industry, congressional committee overseers, and the federal agency implementing regulations. Liberal reaction against economic regulation reflected belief that it served the entrenched interests of the regulated industry rather than the public, inhibited innovation, and distorted prices by limiting price competition. Hearings held in 1975 by the Senate subcommittee on administrative practice and procedure, chaired by Edward Kennedy, put economic deregulation on the political agenda. Economic deregulation was one of the few areas of cooperation between liberals and the Carter administration in the battle against inflation. Promising to support such initiatives in his 1976 campaign, Carter made the airlines his first target and then outlined a broad plan in his inflation program announced in October 1978. Thereafter liberal Democrats supported administration-promoted enactment of a swathe of deregulation affecting airlines, trucking, and railways and financial institutions. The transport-sector measures proved highly successful in encouraging competition and reducing prices, but the Depository Institutions and Monetary Control Act law of 1980 that removed Depression-era Regulation Q caps on banks became associated with the solvency problems that overtook the savings-and-loan industry in the mid 1980s.
One area of deregulation that was a major bone of contention between the White House and liberals was the removal of the oil-price controls initially imposed by the Nixon administration and maintained by the Ford administration with the support of a heavily Democratic Congress. Their effect was to encourage domestic demand and subsidize imported oil, for which Americans paid less than did Europeans. The Carter administration ended the controls in 1979, largely to secure Germany’s support for international economic coordination measures and to relieve speculative pressure on the dollar. Liberals, in contrast, saw this as hurting the party’s basic constituencies who would pay more for gasoline, which cost a dollar a gallon in late 1979 compared with 25 cents in 1974, and home heating. An angry UAW president Douglas Fraser warned presidential inflation adviser Alfred Kahn, “If you make my workers pay a dollar for gasoline then I’m not going to stick to the wage standards.”

Such threats aroused concern that union leaders would not adhere to the wage-standard price guidelines that the AFL-CIO agreed with the White House in September 1979. Liberal Democrats, in particular, regarded this Accord as giving organized labor a voice in shaping anti-inflation policy – the AFL-CIO were given five of the fifteen seats on the newly created Pay Advisory Committee to advise the White House Council on Wage and Price Stability, with five also going to business and to the representatives of the general public.

The dread scenario in their mind was a labor rebellion against wage restraints such as happened in Britain in the so-called Winter of Discontent of early 1979. The attendant rash of strikes, particularly by public-sector unions, had contributed to the election of Margaret Thatcher’s Conservative administration in place of James Callaghan’s Labour government in May. To keep labour in support of efforts to control inflation, many liberal Democrats came to see mandatory wage-price controls as the panacea to inflation by late 1979.
An offshoot of their animus against administered prices, liberal Democrats and their allies claimed that control over market sectors by a handful of key firms enabled these to pass on rising wage and commodity costs to customers because of lack of competition. Liberal economist and public intellectual Robert Lekachman cited the case of the Big Three automobile companies being able to raise their automobile prices by $1000 over the course of 1974-75 even though these were bad years for sales. Memories of the politicisation of the Nixon controls in favour of business in their phase II and III manifestations and the mistiming of their eventual removal initially restricted enthusiasm for a broad program. Support gathered instead for targeted price controls focused on the ‘basic necessities of life’ – food, housing, health care, and ‘basic’ energy. As inflation worsened, however, opinion polls showed public support for broader controls growing substantially.

Emboldened by this, Edward Kennedy made a wage-price freeze a key element of his victorious campaigns in the New York and Connecticut presidential primaries. Drawn up in initial outline by aides earlier in the year, his plan called for legislation to establish a freeze for up to six months after enactment. If inflation remained high, the president was then empowered to impose mandatory controls in their stead to establish standards for wage increases in line with productivity gains and rules governing passing-on of rising costs in the form of higher consumer prices. In addition the Kennedy plan advocated a transferable-coupon gasoline-rationing plan to reduce consumption by 25 percent over two years. As his campaign progressed into New Jersey, it was further refined to include structural measures on the supply-side of the economy to boost the productivity and competitiveness of American industry, notably though permitting faster depreciation of capital assets to spur business investment. Adamantly opposed by the White House as a political gimmick that would merely paper over the inflation cracks in the economy and be very difficult (if not impossible) to administer, the Kennedy wage-price plan died with the failure of his
presidential campaign. However, his industrial policy proposals proved more resilient because the Carter White House recognized the danger that the unemployment concerns of liberal voters might drive them to support Anderson if ignored. Accordingly, a reluctant president allowed inclusion of a variant of them in the economic recovery program on which he ran for re-election against Reagan, but never promoted the idea with any enthusiasm in the campaign.  

32 In formulating their ideas to combat inflation, liberal Democrats drew on expert advice for guidance. The Keynesian economists who had counselled the Kennedy-Johnson administration had lost some intellectual lustre in the face of monetarist and supply-side critiques that their ideas had fuelled the Great Inflation. Nevertheless they remained influential in liberal Democratic circles throughout the 1970s. The tendency to dismiss the approach of political liberals to inflation as an outdated underestimation of the problem extends to their economic advisers, but arguably with equal lack of justification.

Without doubt Keynesian economists did initially misjudge the inflation problem until the surge of 1979-80 compelled a rendezvous with reality. In 1970, Arthur Okun, the Johnson administration’s final CEA chair, acknowledged that the “task of combining prosperity with price stability now stands as the major unsolved problem of aggregative economic performance,” but insisted that a “satisfactory compromise” between these ends could be found. 33 In their efforts to develop this, however, Keynesians paid more heed to stagnation than inflation because they underestimated the scope of the productivity decline that affected the economy, but in this failure they were in crowded company.

Commonly misperceived at the time – the Carter CEA itself did not appreciate the full scale until late 1979 34 – the causes of productivity decline long remained a matter of scholarly dispute. It is likely, however, that they included: adaptation to labor market changes
(30 million new workers entered the workforce between 1965 and 1980, mainly women and baby boomers), a shift of business investment to meet occupational safety and environmental regulatory requirements, and enhanced transfer of manufacturing operations to American subsidiaries abroad.\textsuperscript{35} What finally alerted economists to the problem was that unemployment in 1977-79 fell faster than economic growth warranted because it now took more workers to increase GDP. As a consequence Keynesians in particular overestimated the economy’s potential output and therefore its level of slack, which determined how much it could be stimulated without aggravating inflation.\textsuperscript{36}

Even allowing for this, however, the worrying surge in inflation in 1979 largely flowed from two sources. According to the Carter CEA, huge rises in energy costs – connected to domestic oil-price decontrol and the second OPEC oil-price hike – had added 3 percentage points to the CPI over the year, and rising home-ownership costs that reflected higher mortgage interest charges had added a further 2.5 percent. In its assessment, budgetary restraint in both the short-term and long-term was necessary to stop the bulge in inflation spreading to the rest of the economy. The economists advising liberal Democrats, by contrast, warned that this would make a sharp recession inevitable in 1980 because, in Walter Heller’s words, “the economy can’t keep moving up against the combined force of the fiscal drag, the oil drag, and the Volcker drag.”\textsuperscript{37}

As such, Keynesian economists were virtually unanimous in advising both the Kennedy and Carter camps to engage in spending stimulus to prevent recession coinciding with serious inflation. Other than targeted tax cuts, they showed little interest in the kind of supply-side reductions touted by Republicans and eventually by Democratic members of the congressional Joint Economic Committee in 1980.\textsuperscript{38} With particular regard to the Kemp-Roth tax cut, Lawrence Klein warned the congressional Democratic Steering and Policy Committee in August 1978 that the measure would have grave inflationary consequences
because its incentive assumptions were “seriously deficient in terms of economic analysis, statistical method, and documentary evidence.”

It could be argued, of course, that the enactment of Kemp-Roth in the guise of the Economic Recovery Tax Act of 1981, which offered a three-phase personal tax reduction of unprecedented magnitude, without igniting inflation showed how wrong Keynesians were. Nevertheless, as scholars increasingly recognize, the reality was more complex. The Volcker monetary shock of 1981-82 plunged the economy into recession and wrought havoc on American manufacturing but the attendant high interest rates benefited the rise of finance by drawing foreign capital into the United States. The continuation of relatively high interest rates after 1982 ensured the continued supply of capital from abroad and had the effect, in the words of historical sociologist Greta Krippner, of “transfer[ring] inflation from the nonfinancial to the financial economy-where it was not visible (or conceptualized) as such.” The return of economic growth and prosperity after 1982 was very much concentrated in the financial sector of the economy, and unemployment did not return to its 1980 level until 1986. With profit-making increasingly reliant on the financial sector, holders of capital maximized their share of national wealth, thereby resulting in increased income inequality that was a salient feature of the last two decades of the twentieth century and remains so in the early twenty-first century.

The dominant narrative of political conflict is written first from the vantage of the winners. Unsurprisingly, as the losers in the political battles over economic policy in the 1970s, liberals and their economic ideas have tended to be written off in our understanding of the history of this period – rather as conservatives were in the history of the 1930s and post-war eras until recently. Quite clearly liberal Democrats did not have a sure-fire means of ending runaway inflation, but neither did anyone else in the 1970s. It is equally clear, however, that economic policy of a liberal pedigree was responsible neither for rising
inflation – other than in the latter 1960s when the problem appeared capable of containment – nor the failure to throttle it. Despite the Carter administration’s emphasis on fiscal restraint, the actual effect of retrenchment on the inflation rate was minimal. One authoritative econometric analysis calculated that if every Jimmy Carter budget had been in balance, the core inflation rate in 1980 would have been 9.4 percent instead of 10.1 percent, but unemployment would have been near 10 percent instead of 7.5 percent.41

Whatever the psychological benefits to business and to middle and upper income consumers, the Carter administration’s chimerical search for a balanced budget hardly justified the real economic costs to Democratic constituents and the political ones for the party as a whole. If any public policy was to blame for rising inflation in the 1970s, it was arguably the Federal Reserve’s money-supply expansion in violation of its own targets under the chairmanship of Arthur Burns (1970-1978).42 Otherwise factors pertaining to structural changes in the U.S. economy and external supply-shocks had greatest impact in driving up inflation.

It would be inaccurate to say, however, that liberal policies bore no relevance to the inflation crisis of the 1970s simply because they were never truly implemented. This did not prevent them being rubbed as the root cause of the problem not only by Republicans but also newer elements in the Democratic party that did not identify with its traditional base. “Basically the New Deal died yesterday,” declared Senator Paul Tsongas of Massachusetts the day after the 1980 presidential election. Even some of the true believers eventually absorbed this message. In 1982, Walter Mondale, who had chafed against Carter’s austerity as vice-president, effectively declared Keynesian liberalism politically bankrupt. “In 1980,” he declared, “we lost the middle class. They thought we only cared about the very poor.” This was a highly dubious retelling of history. In mid 1980, pollster Louis Harris had warned the White House that the only way it could win the election was with a northern-focused
campaign that mobilized a traditional base because Republican Ronald Reagan would always outbid it in his appeal to the Sunbelt and the suburbs. The White House’s own polling sounded the same message in the final month of the campaign, desperately urging the Carter camp of the need to regain the support of core groups in northern states disaffected by its policies on inflation and unemployment. 43

Whatever liberalism’s lack of culpability for runaway inflation, the price instability of 1979-80 spelled the end of its capacity to shape the nation’s governing agenda. From that point on Democrats who identified with the New Deal tradition scrambled to play defense against the ascendant conservative Republicanism and the broader conservative movement. For the last two decades of the twentieth century and the early years of the new century, the profit needs of financialization rather than production would primarily drive economic policy with a resultant rise in income inequality that would have seemed inconceivable in the 1960s and 1970s. In the post-war years, liberalism had – in however imperfect a fashion – helped in diminishing somewhat the economic inequalities in American society, a process that historian Judith Stein dubbed “the great compression.” 44 Owing to the political fallout from inflation, however, the United States entered an era in which liberalism descended into pariah status and income inequality rose to levels unparalleled in any other western democracy.


2 Patrick Caddell, Memorandum to the President, “Inflation Rating,” January 16, 1979, Staff Secretary’s File-Presidential Handwriting File [SSF-PHF], box 115, Jimmy Carter Presidential Library [JCPL]; Jerry Rafshoon, Memorandum for the President, “Inflation,” September 1, 1978, SSF-PHF, box 101, JCPL.


10 Schultze, “The Economics of Full Employment,” *Adherent* 3 (August 1976), 11-23. For a rebuttal by economist Leon Keyserling, who was largely responsible for writing the bill, see: Keyserling to Humphrey, September 2, 1976, and to Schultze, September 2, 1976, HP-SP, CF-L 1976, box 2, MSHS.


16 Donald Szantho Harrington to the President, June 17, 1980, plus enclosure “Liberal Party: Memorandum on National Policy 1980” White House Staff Files-Hamilton Jordan, box 79, JCPL; Jimmy Carter to Donald S. Harrington, August 28, 1980, White House Central Files-Subject Files [WHCF-SF], box PL-10, JCPL.

17 For material on the selection process, see Richard Moe, Memorandum for the President, July 22, 1979, Walter Mondale Papers, box 154.J.10.1B, MSHS.

18 Congressman Jim Wright to the President, March 31, 1980, James Wright Papers, Box 721, Texas Christian University. For administration defense of Volcker, see Charles Schultz to Wright, November 28, 1979, WHCF-SF, box FG-188 , JCPL; and “Interview with the President,” October 26, 1979, *American Presidency Project* [APP](University of California-Santa Barbara), [www.americanpresidency.org](http://www.americanpresidency.org).


20 Joel McLeary to Tim Kraft, “Memphis Follow-Up,” December 15, 1978, SSF-PHF, box 242, JCPL. For the convention, see Morgan, 60-61; and Stanley, *Kennedy vs. Carter*.


For a sense of the tortuous negotiation of the Accord see: Charles Schultze and Michael Blumenthal Memorandum to the President, May 29, 1979, and Blumenthal, Memorandum to the President, June 20, 1979, SSF-PHF, boxes 133-136, and Walter Heller, Memorandum to the President, July 25, 1979, Alfred Kahn papers, box 8, all in JCPL. For very good analysis, see Stein, *Pivotal Decade*, 219-224.


In a typical expression of liberal disdain for the phase II and III stages of the Nixon controls, Hubert Humphrey accused them taking “the laboring people of this country … for a ride.” See Humphrey to George Meany, September 30, 1974, HP-SF, CF-L, 1974, box 3, MSHS


Keynesian economist Walter Heller had helped to shape this proposal with its concept of a flexible coupon value dependent on the changing volume of OPEC oil supplies. “It’s a ‘can of worms,’” he asserted, “but it’s better than a can of snakes…. It would tell the world, in no uncertain terms, that we are no longer gasaholics.” See Heller, Memorandum for the President, “Recession, Inflation, and Policy,” January 3, 1980, SSF-PHF, box 163, JCPL.


For examples of Keynesian overestimate of potential output, see: Walter Heller to Hubert Humphrey, “A Few Thoughts on Current Economic Policy,” November 24, 1975, HP-SP, CF-L 1975, box 3, MSHS; and Laurence Klein to Stuart Eizenstat and Jerry Jasowinski, “Contemporary Economic Outlook,” November 18, 1976, Domestic Policy Staff-Eizenstat Records, Box 194, JCPL. Advising the Carter transition team, University of Pennsylvania economist Lawrence Klein urged large-scale fiscal and monetary stimulus to produce several high recovery quarters at about 6-7 percent economic growth to eliminate unemployment in 1977. “The large amounts of slack and unemployment in the economy,” he declared, “[will] serve to hold price changes in check.”


Consulted by the Carter White House in mid 1979, Walter Heller and Arthur Okun urged a payroll tax cut that could help avoid recession and curb pressures for inflationary wage demands. Both also counselled accelerated depreciation allowances to aid business but advised that companies receiving over a specified level of benefit (either $500,000 or $1,000,000 per year) would in return have to specify compliance with the wage-price guidelines. See Stuart Eizenstat, Memorandum to the President, “Results of Consultations with Private Economists and Businessmen,” July 25, 1979, SSF-PHF, box 140, JCPL.

Klein to Senator Edmund Muskie, August 7, 1978, copy in James Wright Papers, Box 721, TCU. Klein was particularly dismissive of the claims made for Laffer curve theory by its policy entrepreneurs. “One can criticize academic economists for being pedantic, slow to come to decisions, and often equivocal, but they have to be our final authorities in cases like this. For all their mistakes, they can tell the difference between good and bad arguments.”


