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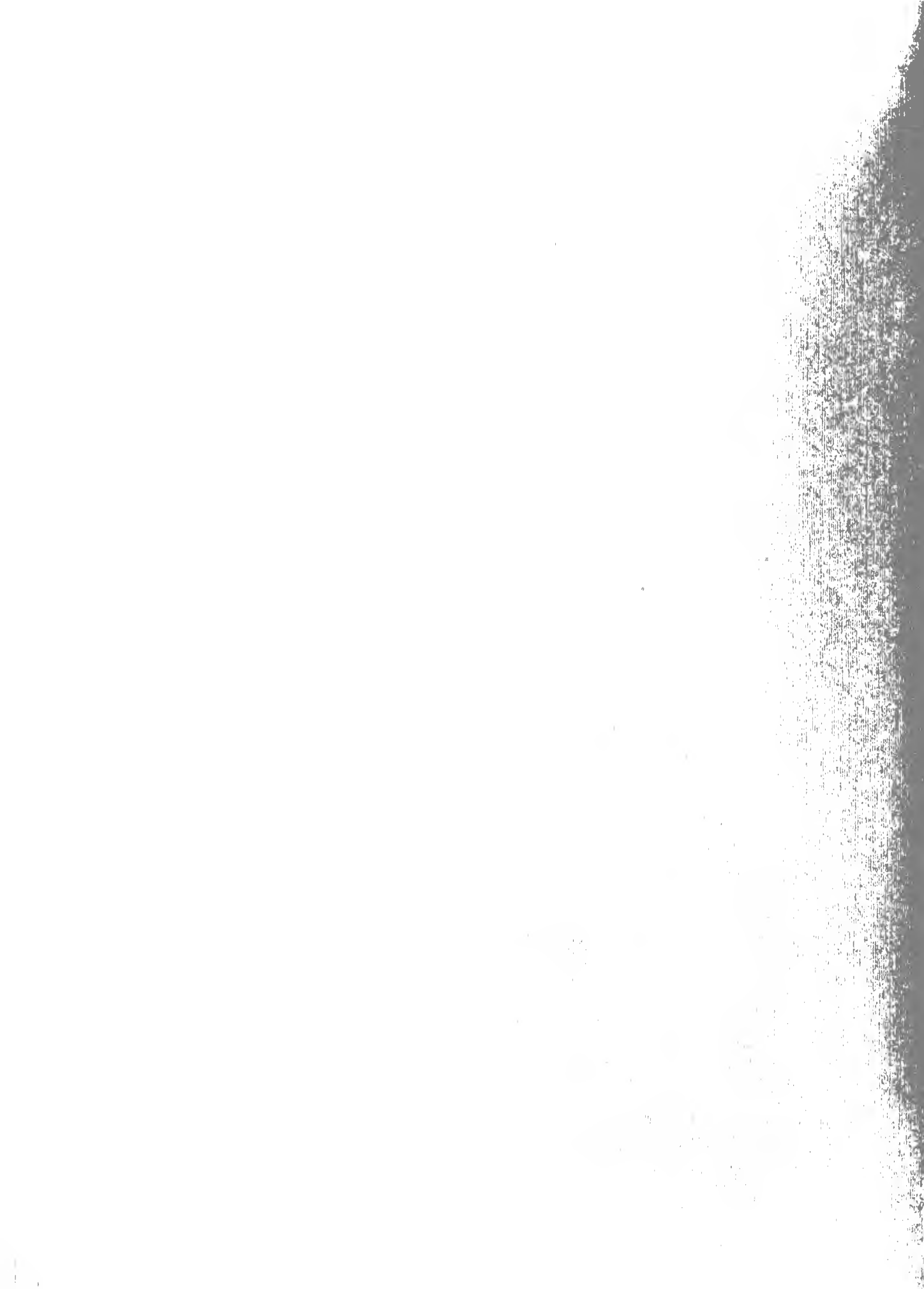
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The Birth of the Mixed Economy

*V Lewis Bassie*



# **BEBR**

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College of Commerce and Business Administration

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The Birth of the Mixed Economy

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## Abstract

The Mixed Economy had its origins in the Great Depression. This disastrous decline resulted from a conjuncture of cycles in the components of real investment, aggravated by financial developments. President Roosevelt, dealing with a chaotic situation, began the interventions that changed the economy into a mix of private enterprise and public programs. Banking crises and price declines were quickly remedied, but unemployment endured and became the focus of renewed fears in the sharp recession of 1937-38. These fears carried over World War II and led to passage of the Employment Act of 1946 as a guarantee of future prosperity.



## The Birth of the Mixed Economy

The United States enjoyed its greatest prosperity in the years of the Mixed Economy. It had its origins in the Great Depression, gained its official credentials at the end of World War II, and matured with a generation that never really experienced hard times. Over the years developments in both the domestic and the international scene so modified the goals and methods of government intervention that the solution of the 1930s were largely forgotten. A reminder of the Depression from which the Mixed Economy came into being is therefore in order.

As the economy pursued its downward course from 1929 to 1933, devastation was increasingly evident, and the only hope for improvement seemed to lie in action by the federal government. President Roosevelt took up the challenge immediately on coming into office and began the series of interventions that eventually made the government's participation large enough so that the economy could no longer be considered private free enterprise but a mixture of private and public components. It came to be assumed that neither business nor government would dominate the other but the two, in a kind of tacit partnership, would resolve all economic problems to promote growth and maintain prosperity.

In contrast, during the prosperity of the 1920s, the prevailing view was that the government neither could nor should try to determine the course of economic activity. The government was then small. After dropping back from the highs of World War I, federal expenditures held fairly steady at a rate of about \$3 billion a year, and higher receipts

produced budget surpluses averaging moderately less than a billion a year. The gross national product (GNP) rose steadily from \$86 billion in 1923 to \$104 billion in 1929, and the implicit price deflator stood at the same level in both years.<sup>1</sup> Industrial production and employment also rose with only minor hesitations to the full employment peak of 1929. Unemployment of 1.6 million was 3.2 percent of a labor force much more heavily engaged in cyclical industries than in recent decades.

The surging prosperity was fueled by pent-up demands from World War I and by dynamic factors special to the decade. One legacy of the war was an acute housing shortage. This pushed residential building to the boom rates that prevailed from 1923 to 1928, with a peak of one million units in 1925; it converted housing shortage to surplus. The maturing automobile and related industries such as iron and steel, rubber, and petroleum refining boomed to dominate manufacturing. State and local governments undertook tremendous road-building programs designed to satisfy the needs of the newly motoring public. Another new industry, radio, built sets for almost every household and required large investments in facilities by the broadcasters. It was indeed a prosperity to be proud of, and in the character of such booms it succeeded in accumulating the many durable goods and facilities desired by a rapidly growing population.

Gains from a soaring stock market encouraged belief in a "New Era" of never-ending prosperity. This speculative market may itself be

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<sup>1</sup>Data are from Historical Statistics of the United States, Washington, D.C., 1960.

regarded as a specific phase of the overall business cycle following World War I; it carried most of the fervor of that period as financial assets were accumulated but was limited in comparison with the many forms of speculation that developed after World War II. The illusions generated by the market's success in blowing up stock prices were shattered by the Great Crash in October, 1929.<sup>2</sup> The government was not prepared and indeed was not considered to have responsibility for dealing either with the immediate speculative panic or the more basic economic conditions that were emerging.

#### Cyclical Forces Caused the Depression

There is a tendency to think of the stock market crash as the cause of the depression. Contrary to this dubious thesis, the primary lines of causation run the other way. No doubt the heavy losses suffered by speculators and financial firms made some contributions to the subsequent economic decline. However, only a small proportion of the population was actively involved in the speculation,<sup>3</sup> and the shock effects on the real economy were very brief. The latter, upon which the justification of speculators' hopes rested, had already turned down and probably would have continued down without regard to any speculative losses.

Even as peak stock prices were being approached, basic economic variables were declining. Residential construction initiated the

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<sup>2</sup> J. K. Galbraith, The Great Crash 1929, Houghton Mifflin Co., Boston, 1961.

<sup>3</sup> Ibid, p. 83.

cyclical declines; it had been falling gradually from the 1925 peak and the decline greatly accelerated in 1929. Community facilities followed, starting down in 1928. Manufacturing production, led by steel and autos, peaked in June 1929 and was down 7 percent by early October. In contrast, during the third quarter of 1929, the Dow-Jones Index of industrial stocks surged another 20 percent above the inflated highs reached earlier in the year. That last great push was clearly a speculative mistake based on unjustified hopes for continued progress and profits, and the economy let the speculators down.

Contributing to the panic of the crash was the fact that most of the speculative stock accounts were carrying their assets on small margins, so holdings were sold regardless of price as owners' equities were wiped out. Intervention by the big bankers produced enough support by noon to halt the panic of that day, but this was not known generally for hours because the ticker reporting was far behind the market. The final big blow of the Crash occurred October 29, with almost half of the peak values wiped out, but except for a brief credit crunch in the following weeks, there was hardly any significant effect on the banks or monetary conditions in general.

The most severe panic of stock market selling, unrelieved by intervention, came much later. By the spring of 1930 the market had recovered almost half of the loss in the 1929 crash. But then, as business conditions worsened, the bear market resumed and in steady setbacks, eroded away almost 90 percent of the peak Dow-Jones Industrial Index values by the spring of 1932. In addition, needs for payment of debt and attempts to gain liquidity resulted in sales of corporate bond holdings

at sacrifice prices, so that the yields obtained by buyers doubled over the same period. This erosion of security values was much more important than the initial crash in creating insolvencies of investors and in aggravating the banking crises that persisted into 1933.

Behind the financial failures lay the even more serious, almost steady drops in the nonfinancial economy. Although financial stability returned within weeks after the 1929 market crash, the economic decline was accelerating. At the lows, the real declines were unprecedented: In 1933 housing starts were down 90 percent; industrial fixed investment and passenger car purchases were down about 70 percent; and the reversal of inventories from accumulation in 1929 to liquidation in 1932 amounted to a third of the decline in the flow of goods to final users in the same period.<sup>4</sup> Employment fell from 47.6 million in 1929 to 38.8 million in 1933, and unemployment rose from 1.6 million to 12.8 million, so that approximately one in four of the labor force were without jobs.

Two other factors added to the deflationary impact. The first was the decline in prices. The wholesale price index began to fall in the summer of 1929, and the decline accelerated as production dropped reaching almost 40 percent by early 1933. This helped turn profits into losses and although costs were also depressed it added to the distress of bankruptcies, other business closures, and loss of employment. The second was the drying up of foreign trade. Protectionism

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<sup>4</sup> As shown in the author's book, Economic Forecasting (McGraw-Hill, N.Y., 1958) each of the declines in these real variables can be effectively explained in terms of their own stock-flow relationships. See pp. 320, 348, 377, and 253.

was strengthened with the passage of the Hawley-Smoot Tariffs in 1930, thus adding another restriction to overall demand in already falling world markets. U.S. exports, upon which the need for investment in productive facilities partly depends, fell by 70 percent from 1929 to 1933, adding to the surpluses of capacity and labor.

Almost every economic variable joined in depressing the economy. Yet the effects of such factors as money, prices, and trade were secondary and laggard in propelling the economy into the depths. The price declines were related to and largely derivative from the real declines for two reasons: first prices in those days varied much more closely in response to changes in real demand than they do now; and second, declines in the physical volume of sales made goods on hand and the facilities for producing them redundant and thus forced the repricing of inventories and other assets that owners in financial difficulties could no longer retain. The essence of this most violent economic setback was the extreme conjuncture of real cyclical downswings in an uncontrolled economy.

It follows that no particular person or group was responsible for the disaster. Some blame President Hoover. They regard his actions as no more than futile gestures aimed at restoring confidence. To him, the government was a proper instrument for protection of political and legal goals but limited in the economic sphere. He could not believe that the economy lacked the vigor to make an automatic comeback. Much less could he understand, given the state of business cycle theory at the time, the dangers of a cumulative downswing, in which interacting cyclical forces would work vigorously to drive the economy lower and prevent recovery, just as they had worked for the earlier progress.



Others, notably M. Friedman and A. J. Schwartz, blame the Federal Reserve Board. The main thesis of their work, that "money does matter," is accepted by everybody, but their conclusion that the Great Contraction was caused by monetary ineptitude is not really tenable.<sup>5</sup> It ignores the most important realities of those years of international deflation and conceals the basic causal relations revealed in the timing of relevant changes. Their argument as to the importance of money depends for much of its plausibility on selecting and discussing the facts in terms of the entire decline from 1929 to 1933 without regard to the intermediate sequences. It is true that over the four years of decline from 1929 to 1933, the money stock dropped by about one-third. But through the first half of that period it remained almost stable while everything else was plunging into the depths.

They concede that "In October 1930 ... the public was not greatly concerned about the safety of bank deposits."<sup>6</sup> And it was not until some months after the banks then began to fail that the money stock gained significance. In contrast to the nearly stable money stock, by the end of 1930, housing starts were down about 60 percent, real industrial gross investment was down about 40 percent, and the change in business inventories was negative by more than the peak rate of accumulation in 1929. The real cycles had set the course toward the trough and the decline continued despite comparative monetary stability

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<sup>5</sup> A Monetary History of the United States, 1867-1960. Princeton University Press for the National Bureau of Economic Research, N.J. 1963.

<sup>6</sup> *Ibid.*, p. 340. See their charts 27, 28 and 29 for the courses of some relevant variables.

into the fall of 1931. After that the collapse of the money stock reflected all kinds of bankruptcies, especially bank failures.

Already by the spring of 1931, the relatively stable stock of money had clearly become excessive in relation to economic activity and prices. With activity low and still declining, it was completely unable to stimulate spending by either consumers or business. Whether any moderate addition to the stock of money could have been an inflationary success in the deflationary atmosphere of the time is not at all likely. Currency and near cash assets were being hoarded, including hoarding by the banks trying to increase their reserves, so spending was curtailed and the velocity of circulation fell. That decline, as it occurred strongly in that early period, was not a monetary matter but the reverse; production and prices were declining, so income had to be falling, and since the money stock was relatively stable, it meant both that velocity was falling and that the money stock had little to do with initiating the decline. So money too was in need of downward adjustment and the banking crisis was left to do the job.

Later, as bank deposits were wiped out in swelling waves of failures, the decline in the money stock became a factor aggravating the depth of the depression, but then it was too late for anything but drastic general action to save the banks. In the quarter century since the publication of their book, Friedman and Schwartz have insisted that changes in the quantity of money have definite effects, after variable lags, on economic activity and prices, but in the Great Contraction, the situation was not one in which money took the lead, nor could it have taken the lead to recovery.

No doubt, if the bank failures of late 1930 to early 1933 could have been prevented, the disaster might have been moderated. Such a policy seems plausible with the aid of hindsight and in the theory of the mixed economy but neither the outcome nor the theory existed at the time. The Fed was not committed to bailing out all the failing banks, no matter how badly they were managed or how much their portfolios had deteriorated. The bankers themselves accepted no responsibility for the salvation of their fellows; they refused to participate in a merger plan to save the Bank of the United States at the onset of the first banking crisis in the fall of 1930.

High-powered money, the Fed's direct responsibility, was permitted only a minor decline to that point. Thereafter it rose and ended the entire contraction about one-sixth above the 1929 level in early 1933. The Fed clearly was willing to help via the discount window. All through 1930, it lowered the discount rate in steps, to 2.5 percent, half the level of pre-Crash 1929, and then to 1.5 percent in the spring of 1931, but an unresponsive economy gave it little cooperation.

The low interest rates and ample excess reserves prevailing in the years following the Depression lows led to the situation described by the "pushing on a string" theory: "You can't move the far end of a string by pushing on the near end!" In other words, making money available and cheap was impotent for bringing about the desired recovery. Borrowing fell to a low ebb because hardly anybody could expect to profit by taking a loan. Both lenders and borrowers preferred as far as possible to reduce debt, and private debt made hardly any recovery from the banking-crisis declines until after 1940. Paying off debt or

writing it off as bad debt was the way the money stock in the form of bank deposits was brought down. It was a result much more than a cause of the Depression.

#### The Beginnings of Intervention

Roosevelt came into office facing a chaotic situation. The growth of radicalism over "the failure of the capitalist system" made conditions frightening in socio-political as well as in economic terms. The decline ended when he took office as President and initiated the activist programs known as the New Deal. That his success was partly coincidental may be conceded; some important investment activities such as residential construction had then hit bottom, near zero, so that deflationary pressure was reduced. Nevertheless, the importance of the measures taken should not be discounted.

The programs were ad hoc and welfare seeking, focused on the needs of particular disadvantaged groups. There was no accepted economic theory to direct them; they represented in effect a general role of fighting the fires generated by the Depression wherever they had flared to intolerable heat. Any group who needed help could expect to be heard, and the multiple programs undertaken were variously derived from their pleas or from the proposals of experts who were presumed to have special knowledge relating to the problems perceived.

It turned out that the easiest problem to resolve was the banking crisis, though not without pain to many troubled bankers still operating. On March 6, 1933, all the banks were ordered closed for a nation-wide "holiday." Their accounts were then to be inspected and only "sound" banks were to be permitted to reopen. Emergency legislation was passed

on March 9 to permit the issue of Federal Reserve notes against holdings of federal securities, and the Fed announced that currency would be provided to meet any run on a reopened bank. Deposit insurance began to be discussed and after several months was put into effect. These measures restored confidence in the deposits of operating banks, so recovery could get under way in an atmosphere of monetary calm.

Halting the downward price spiral was also accomplished quickly. It came to an end even before formal action was taken, as soon as the intention to do so was announced in 1933. Even industries with the greatest resistance to price cutting had been unable to cope as volume dried up and the mechanisms of price administration broke down. The industrialists came to Washington to join farmers and small businessmen in the clamor for help. The price recovery program set up, the National Recovery Administration, was widely publicized as the "Blue Eagle." It was in effect an experiment in monopolistic price fixing, with government participation protecting firms that had been restrained by the antitrust laws. Codes were set up, industry by industry, in consultation between industry and government representatives, to lift prices, which were then able to hold the early gains until the next upward push in 1936. In addition, production, wages, and investment were to be adjusted as necessary to meet this primary goal.

The effects of higher prices and wages might have been altogether negative in this period of low demand except that a short-lived inventory boomlet was stimulated, providing some temporary hopes for complete success. This boomlet was mostly over by the end of 1933, completely by mid-1934, when liquidation of inventories resumed. A year later the

Supreme Court declared the program unconstitutional, and its potentially harmful effects were eliminated.<sup>7</sup>

As part of the Blue Eagle program, business nominally accepted labor's right to collective bargaining and agreed to minimum wages and maximum hours. Labor had become militant and the unions' organizing and recruiting drives greatly expanded their membership. The early concessions to their point of view were extended and formalized with the passage of legislation--the National Labor Relations Act of 1935 (the Wagner Act) and the Fair Labor Standards Act of 1938. These later measures reforming labor relations and giving the workers a stronger voice in economic decision making, as well as most of the other liberal New Deal measures, met intense business opposition.<sup>8</sup>

The condition that proved least answerable to correction was unemployment. To reduce it, public works spending was expanded and several programs of direct federal employment were undertaken. The youth program known as the CCC (Civilian Conservation Corps) took young men out of the labor market and away from home to work on improving the environment; it employed a half million in the summer of 1935. For adults, the most successful was the WPA (Works Progress Administration), a work relief program that operated through projects set up under state and local auspices in conformity with federal standards. It employed relief applicants with a very wide range of skills, including building tradesmen, artists and writers as well as many others. They were paid

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<sup>7</sup> Thomas Wilson, Fluctuations in Income and Employment, Pitman, NY, 1942, p. 174.

<sup>8</sup> Milton Derber, The American Idea of Industrial Democracy, 1865-1965, U of Il Press, Urbana, 1970, p. 296.

wages higher than relief payments but usually much less than the wages earned in similar private employment. Beginning in the spring of 1935, WPA employment was expanded rapidly to reach a total of 3 million workers in early 1936. This not only made a substantial contribution to recovery, it also created or improved public facilities and gave a strong boost to the morale of the unemployed.

The expansion of programs was the most important government contribution to recovery, but the consequent large deficits in the federal budget were widely deplored throughout the 1930s. At that time budget balancing was still central doctrine in the theory of government finance. The first deficit appeared in 1931, with the decline in revenues, and the first big increase in income taxes was passed in 1932, before Roosevelt, to restore tax receipts; in many brackets, rates were more than doubled and in others nearly doubled, but the decline in receipts was barely stemmed. The Revenue Act of 1934 increased rates further, and the Act of 1936 put some of the rates up still further, mostly in the \$50,000 and higher brackets, with the result that Roosevelt was damned for his "soak the rich" policy. Up to that point at least, he too believed in balanced budgets but he was never able to achieve any in his long term in office, as the relatively small deficits of the 1930s grew into the multifold deficits of World War II.

The recovery in income and personal consumption expenditures accelerated in 1935 and was given a fillip in early 1936 with the payment of the veterans' bonus, passed over Roosevelt's veto. Encouraged by this upswing and by the ability to raise prices to cover costs and

increase profits, business embarked on a strong movement to accumulate inventories. In 1937 some variables made recoveries all the way back to the 1929 highs, and although others fell short and the full employment condition of 1929 was clearly missed, it was then thought that the economy was vigorous enough to take care of itself. So government policy changed in the latter part of 1936 and programs were cut back sharply; for example, WPA employment was reduced from the 1936 high of 3 million to 1.5 million by the fall of 1937. The cutbacks combined with tax increases to produce a strong deflationary impact. Thus, the recession of 1937-38 partly grew out of efforts to reduce spending and deficits.

In early 1937 business policy also changed. It became clear that income and consumption had not risen enough to justify the then current rate of production, so the inventory cycle went into reverse. Taking account of peaks and troughs within the years, production was cut back in one year by about as much as it had been cut in the first two years of decline from the 1929 high to the level of 1931, and unemployment again rose by some 3.5 million to about 11 million, or roughly one-fifth of the labor force. This sharp decline ended by mid-1938.

It was also clear to government by then that the negative change in policy in 1936 had been a mistake, so it was again changed toward restoring economic stimulation. Again using WPA as an indicator, project employment was increased from the 1937 low of 1.5 million to over 3 million by the end of 1938. Recovery was resumed, and in the fall of 1939, with about 10 million still unemployed, merged into the beginning of the expansion based on war in Europe.



## From Setback to Guaranteeing the Future

The failure of the economy to complete the recovery and instead to plunge into the drastic setback of 1937-38 called for explanation. Lauchlin Currie, then Assistant Director of Research at the Federal Reserve Board, pointed out that the shift in government policy had been an important factor in the recession.<sup>9</sup> He had developed a measure of the economic effects of fiscal policy, called the net government contribution, which was essentially the excess of disposable cash income paid to the public over the cash tax revenues collected from the public. Program cuts and tax increases reduced this measure from over \$4 billion in 1936 to almost zero in 1937. Taxes had been increasing with higher incomes and tax rates, and the imposition of the Social Security taxes at the beginning of 1937 made this decline particularly abrupt. Currie also saw, though without current data on inventories, that business had overshot the upswing and so had made another major contribution to the recession. The memorandum was a masterpiece of economic analysis for the time and had an important impact on policy.

By that time J. M. Keynes' General Theory of Employment, Interest, and Money had become widely available. It explained in terms of rates of saving and investment how the economy as a whole worked and provided the basic form of analysis that has dominated economics ever since. Keynes had been particularly concerned to explain the long continued condition of unemployment in England in the 1920s and 1930s, and the applicability of his theory to the problem in the U.S. was clear. His

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<sup>9</sup>"Causes of the Recession" April, 1938, History of Political Economy, Vol. 12, No. 3, 1980, Department of Economics, Duke University, Durham, NC, pp. 316-335.

book soon became a kind of bible for economists in both universities and government. Many, too numerous to mention here, made contributions extending and explaining the new theory for the benefit of national policy.

In May 1939, Professor Alvin Hansen of Harvard and Lauchlin Currie explained the new theory and its implications in Hearings before the Temporary National Economic Committee of the US Congress. They made elaborations based on their own research and presented statistics to justify recommendations of active federal measures to push the economy higher.

In the hearings Hansen stressed the lagging of investment, especially construction expenditures, as compared with the 1920s. In his view dynamic factors were no longer operating. The rate of population increase had dwindled to a fraction of what it had been and no new industry was in sight to provide thrust to capital expenditures. The boom of the 1920s had produced a state of saturation and the economy, subsequently failing to find adequate investment outlets for its savings, was "depressed and stagnant."<sup>10</sup> He did not consider this in the context of a longer cycle in which the extreme durability of the products of construction could preserve for some years a state of saturation that would eventually be eliminated by slow growth and by the wearing out and obsolescence of facilities. He sought only to demonstrate that for the time being the economy could not progress on its own and needed outside stimulation to regain prosperity.

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<sup>10</sup> Investigations of Concentration of Economic Power. Part 9 Savings and Investment, TNEC, Washington, D.C., p. 3503.

An alternative kind of theory concerned political controversy. Although Roosevelt saved the free enterprise system, he was hated by the wealthy, not because he did so but because he demanded payment for doing so--in higher taxes and in the sharing of economic power. Some analysts and commentators held that his policies in the 1930s were so controversial as to result in a "poisoned political atmosphere," so much so as to retard the economy. There are elements of truth in these statements but the idea that controversy and political frustration as such interfered substantially with economic progress by discouraging investment is not well founded. Business responded fully to market demands in both output and investment. The various forms of investment rose as fast as basic factors in the 1936 situation called for and generally exceeded the related levels in 1937, in accordance with the lags involved.<sup>11</sup>

On the basis of the Depression experience and the new economic theory, three conclusions were established.

First, government spending and deficits (dissaving) were necessary whenever the private economy was in the doldrums; there was no alternative to active measures for minimizing the economic, social, and political consequences of a severe decline.

Second, the theory of pump-priming was fallacious; when a temporary stimulus is withdrawn, the economy drops back, lagging briefly on the decline as on the upswing.

Third, in a condition of stagnation, the economy cannot progress to new recovery highs, let alone full employment, without some stimulus

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<sup>11</sup> Economic Forecasting. See charts on pp. 252, 349, 351, 353, and 356.

long lasting and strong enough to spark private investment at a rate that would absorb the savings generated by prosperity incomes.

These ideas carried over World War II into the postwar period. The war itself could be considered a kind of temporary stimulus that would be eliminated at its end. Fears of a recurrence of depressed conditions characterized by huge unemployment were widespread. The war effort had absorbed the unemployed--a major asset in building the armed forces--and an even larger number were being discharged to civilian life in little more than a year. Since jobs for them would not be immediately available, unemployment would rise sharply. There were forecasts of a return to the 8 to 10 million unemployed of the immediate prewar period.

A popular economic concept at the time was the "deflationary gap." This concept is theoretically valid as a measure of the structural excess of saving over investment opportunities in the circumstances it contemplated--namely, a "less than full employment equilibrium." It indicated that, given the distribution of income, savings would be too high and investment too low to produce or sustain the full employment rate of activity. It correctly assumed that real investment derives mainly from its own determinants, and not from an independent level of savings. It incorrectly assumed that opportunities for real investment in the postwar years would be too restricted to develop the volume needed to match a full employment volume of savings.

The negative attitudes were not confined to government and other economists. Business too was in a pessimistic mood. It had been geared up to wartime production above the level of normal capacity and

knew that a letdown could leave it with excess capacity. An illustration of business reluctance to spend for investments other than reconversion was provided by the controversy over future steel requirements.<sup>12</sup> Disturbed by uncertainties about future sales and prices, the industry was unwilling to invest in new capacity for several years. In the summer of 1946 the stock market broke sharply, at a time when production was recovering and prices were being decontrolled, and the market stayed at the reduced level for three years. This was proved to be a costly speculative misjudgment by the financial community during the multifold advance of the market in the 1950s and 1960s.

At the time, few economists foresaw other than a return to depressed conditions. The author did not believe such a conclusion was justified. He wrote two articles pointing to the enormous accumulation of liquid assets from wartime saving and the corresponding near absence of debt, on the unprecedented deferred demands for houses and durable goods, and on the consumer demands of a rapidly increasing civilian population.<sup>13</sup> Both of these articles received some sharp criticism: it was not just that they were thought to be mistaken; more significantly, some critics considered them inappropriate for supporting sound national policy.

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<sup>12</sup>Memorandum prepared by Louis H. Bean, U.S. Department of Agriculture, June, 1948, partly reproduced in Economic Forecasting, p. 71-2.

<sup>13</sup>The first article, "Consumer Expenditures in War and Transition," appeared in the Review of Economic Statistics, Vol. 28, No. 3, August, 1946. The second, "No Bust in 1947," Department of Commerce, March 1947, had relevant portions republished in Barron's, April 21, 1947 under the title "Consumer Buying Still Going Up."

On the side of playing safe against depression conditions were the attitudes engendered by success in winning the war. There was a new sense of power, new confidence in the government's ability to accomplish great things, and a determination to do whatever was necessary to provide for a prosperous future. These views were expressed by Roosevelt in October 1944.<sup>14</sup> They met the usual skepticism for campaign speeches, but in the event there was no incentive to refuse new opportunities for business or employment.

The perspective of these attitudes was global in scope. At the end of the war the United States economy alone was undamaged and capable of full industrial production. The United Nations was then being organized, on the basis of earlier discussions initiated by Roosevelt, and international cooperation to meet emergency needs abroad was begun under a Relief and Rehabilitation Administration (UNRRA). Subsequently the use of United States resources for foreign aid was greatly expanded and refocused toward Europe under the Marshall Plan for assisting friendly countries in repairing war devastation and promoting their full recovery.

The expected letdown in 1946-47 was brief. For a variety of reasons--mainly because the returning veterans did not immediately want or need to enter the labor market and hunt for jobs--the predicted high unemployment did not make its appearance. But before the issue was decided by facts, action to guarantee the economic future at home was

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<sup>14</sup>See Henry Wallace, Sixty Million Jobs, Sept., 1945, p. 8. This book was a systematic attempt to state goals and the means of realizing them, with a call for cooperation in all sectors of the economy.

taken in the form of the Employment Act of 1946. It committed the government to creating favorable economic conditions and "to promote maximum employment, production and purchasing power."

The Mixed Economy was alive and active. It grew to maturity in decades of progress interrupted by only minor recessions. Unfortunately both the goals and the particular patterns of expenditure were modified and distorted by involvement in the Cold War. Each in a series of emergencies, two being minor hot wars, demanded a surge in expenditures directed away from the needs of the home economy. Before the second of these wars, not much after the first decade of the mixed economy, President Eisenhower felt it necessary to warn against the growing power of the military-industrial complex.

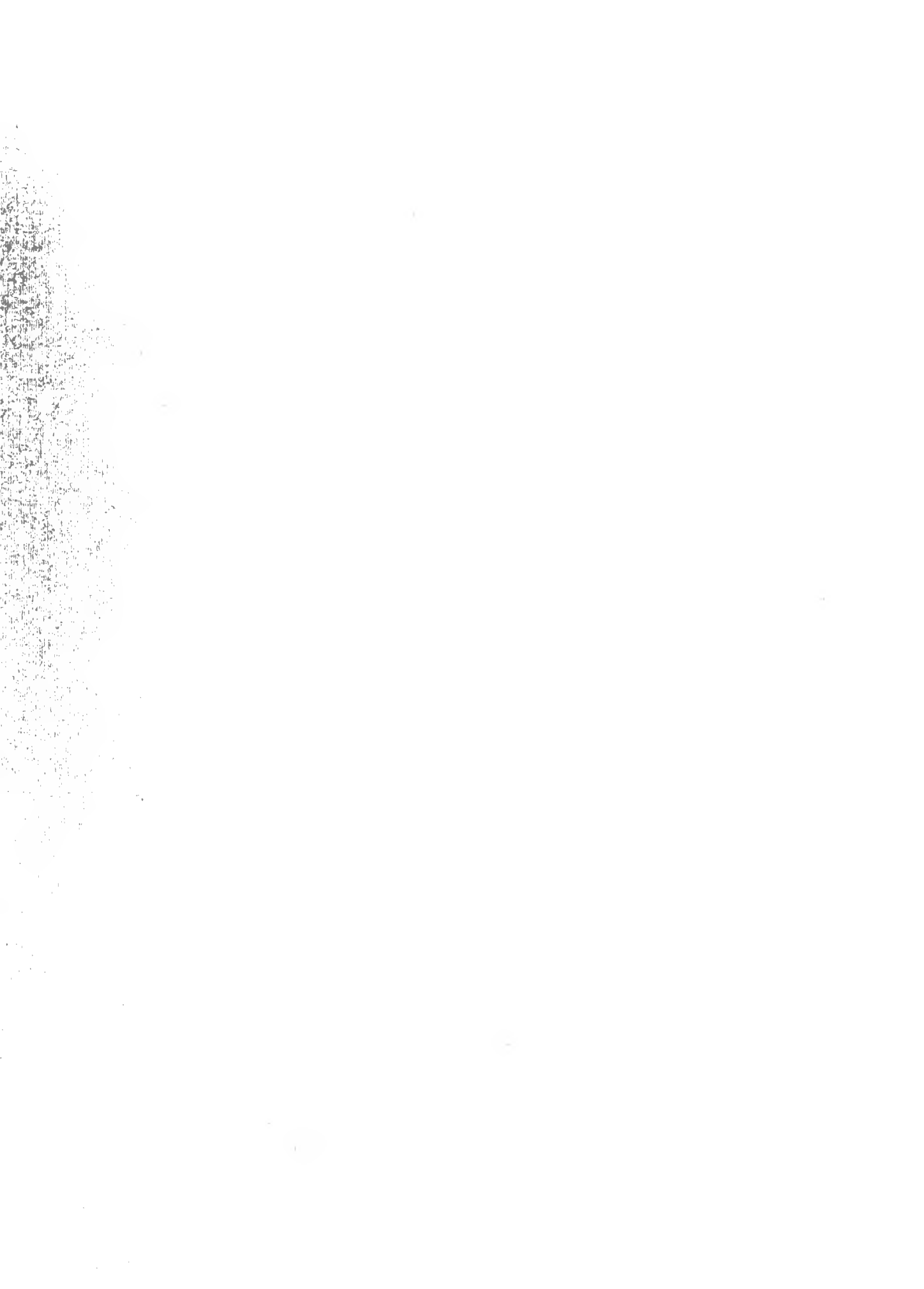
The government apparently lived up to its commitment fully, but each time its efforts to promote recovery from a minor setback required greater intervention, business left it to carry a greater share of the fiscal burden. The impact was aggravated by growing acceptance of the mistaken theory that tax reduction is the best stimulus for economic growth and by the expansion of multiple tax shelters. These trends have created huge and potentially destabilizing federal deficits under President Reagan.

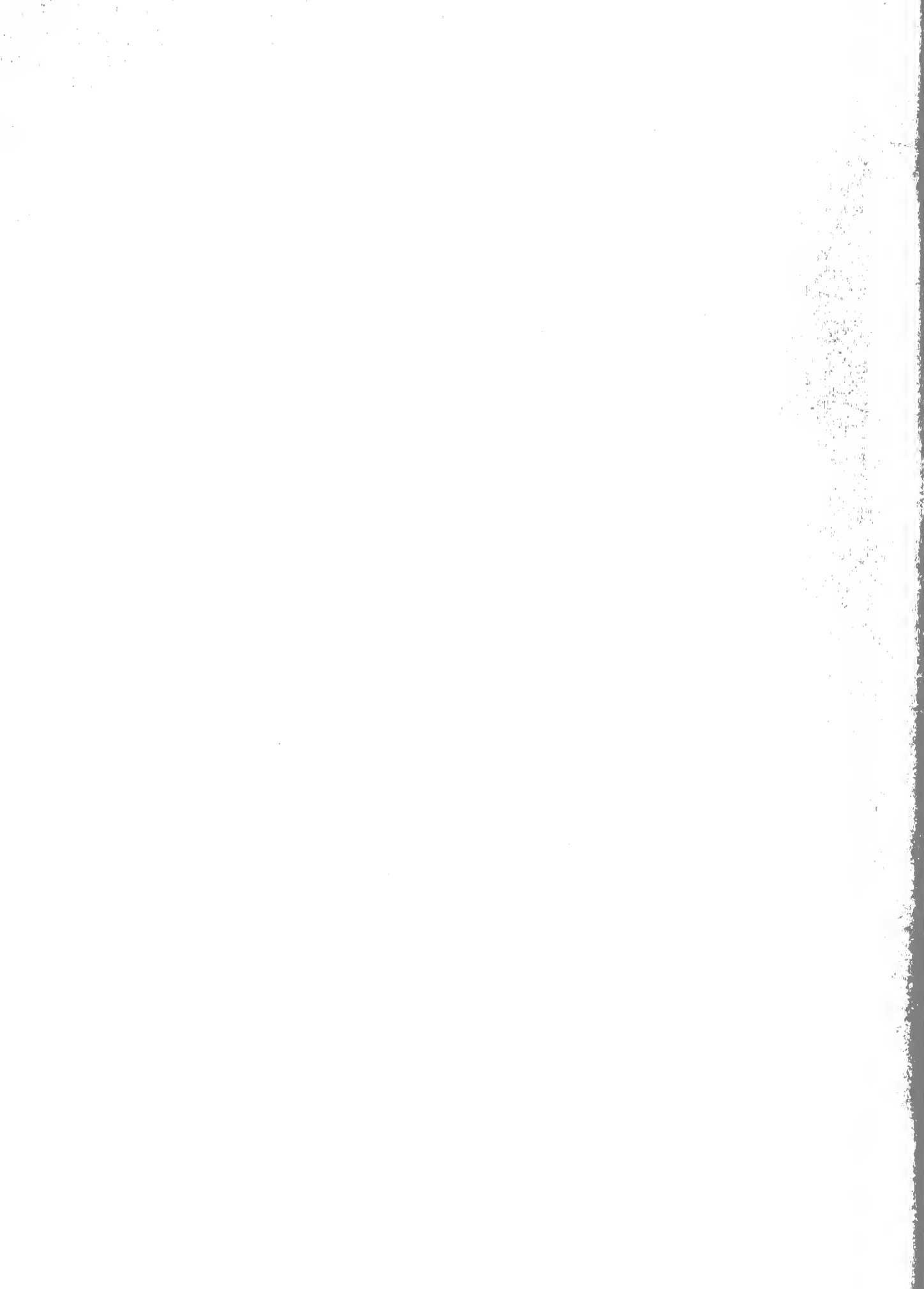
The result is an economy in delicate balance. The inflationary policies of the government, both fiscal and monetary, are balancing for the time being the deflationary forces of market and debt saturation, an overvalued dollar, and high interest rates. Deregulation is helping to return the economy to the uncontrolled state that existed in the 1920s, and the Administration is condoning the growth of monopoly power

through mergers. So the Mixed Economy may be nearing an end, with unforeseeable consequences, not just for the economy but for the entire socio-political system.

V Lewis Bassie  
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