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# The Employment Act in Historical Perspective

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# 1

## The Employment Act in Historical Perspective

As the United States approached the middle of the twentieth century, it was undergoing a considerable change in its conception of the role of government and of the government's responsibility for maintaining the economic well-being of its people. The Great Depression had shaken the country's economic foundation and posed a threat to the social stability of the United States. The activist programs of the New Deal intervened and, many say, prevented a complete national collapse. What the New Deal did not do, ramping up for the nation's entrance into the Second World War did: end the economic depression. Direct federal spending for World War II, which stimulated wartime production, lifted America out of the Great Depression.

At the leadership level, many concluded that the wartime spending had validated the theories of John Maynard (Lord) Keynes, a British economist who advocated, among other things, deficit spending during economic downturns and depressions. Some policymakers further argued that it would be reckless if the government did not establish Keynesian economics as formal policy. There were quite a few leaders, however, who thought the New Deal had gone too far and who certainly opposed any effort to further strengthen the federal role in the economy.

Though the American public knew little of Keynes and his theories on compensatory spending, they did know that they wanted no more depressions. Many people, idle during the 1930s and working overtime during the war, were realizing that they were part of a national economic system and thus were vulnerable to its fluctuations. Moreover, the socioeconomic composition of the population was undergoing change, and the fact of social and economic interdependence was now obvious. The result was a redefinition of the role of government and government responsibility.

The push to enact full employment legislation was a pivotal step in this process. An examination of the debate on full employment policy offers an opportunity to identify the forces in this contest, to see how

these forces lined up, and to clarify the issues that distinguished these forces from one another. Full employment legislation provides a case study that enables us to gain a better, albeit incomplete, understanding of the dynamics of redefining government's tasks.

As originally introduced, the proposed Full Employment Act of 1945—hereafter referred to as the full employment bill—mandated a dramatically new role for the federal government in the economy. It was the first piece of seriously considered, comprehensive economic legislation from the perspective of the consumer and working person. More sweeping than protective labor legislation such as workmen's compensation and minimum-wage laws, the bill stated that all persons able and willing to work were entitled to employment—an employment bill of rights. It also would have established a permanent system for national economic planning and would have required compensatory federal spending in periods of recession.

The legislation that was ultimately enacted became the foundation of economic policy for many years. It provided the justification for compensatory spending, tax cuts, job-creation tax credits, and other Keynesian tools, which the many subsequent administrations used to buoy the U.S. economy. It established the President's Council of Economic Advisers and the congressional Joint Economic Committee—key structures intended to conduct national economic planning. Indeed, it placed the ultimate responsibility for maintaining the nation's economic well-being upon the federal government.

A history of the Employment Act of 1946 is especially pertinent today, as many of the world's developed economies teeter on the verge of a major economic recession, perhaps depression. The U.S. Congress and the president are again debating the role of the federal government in alleviating unemployment and stimulating job creation. Although full employment is not a common phrase in the current lexicon, the twentieth-century debate over full employment offers lessons for our times. The parallels will emerge as the history unfolds.

## USAGE OF UNEMPLOYMENT AND FULL EMPLOYMENT

Unemployment. The term still prompts images of the gaunt faces in the breadlines of the 1930s, although today we are more likely to see depictions of statistical trends in the graphics shown on the news. To the affected individuals and families, it is an ego-shattering experience that places the basic requirements of food and shelter at risk. To the society as a whole, it is indicative of a troubled economy when it rises above the level of frictional unemployment—i.e., unemployment that occurs when people are naturally moving between jobs. Some researchers, moreover, associate unemployment with increases in personal problems such as divorce, substance abuse, and mental health problems, as well as community-wide problems such as delinquency and violence (Strom 2003).

Unemployment is a concept that grew alongside industrialization. It is an integral, if unfortunate, aspect of free enterprise capitalism. It occurs when an individual's job depends on persons or forces beyond his or her control or when the person lacks the skills needed to perform the job at hand. It appears that originally the term "unemployed" was used literally to refer to those who were not working. This earlier definition thus encompassed children as well as elderly persons. Before the 1850s, the use of "unemployed" to describe adults connoted laziness and incompetence (Keyssar 1986, p. 3).

The contemporary definition of unemployment derives directly from the idea of involuntary idleness. As the United States was experiencing the depression of the 1870s, the word "unemployed" began to be limited to those forced out of work. The term "unemployment," referring to both the condition of persons and the condition of the economy, began appearing in print in the late 1880s. The 1911 edition of the *Encyclopaedia Britannica* was the first to include an entry on unemployment (Garraty 1979, pp. 139–140; Keyssar 1986, pp. 3–5).

Full employment, like unemployment, is a modern concept. As countries around the world were experiencing the Great Depression of the 1930s, full employment became a focal point of policy debates. Though Keynes did not originate the term, he certainly fostered its discussion. More importantly, Keynes, as well as American economist Alvin Hansen, advocated full employment as a policy alternative for

free market economies that countered the fascist and socialist remedies for unemployment (Klein 1947, pp. 153–159).

Full employment means somewhat different things to different people. In his 1944 *Report on Full Employment in a Free Society*, William Henry (Lord) Beveridge defined full employment as “having always more vacant jobs than unemployed men” (Beveridge 1944, p. 18). Leon Keyserling, an original member of the Council of Economic Advisers, said that full employment is simply no unemployment—when everyone who wants a job has a job.<sup>1</sup> Generally, economists describe full employment as the condition of the economy when the only unemployment is frictional—i.e., the rate of unemployment that normally results from people changing jobs. The rate of unemployment that economists have considered acceptable in a full employment economy has ranged from less than 1 percent to 5 percent (Dornbusch and Fischer 1981, pp. 7–8, 376; Garraty 1979, p. 229).

This book defines full employment as the condition of the national economy when all who are able and willing to work are employed. This definition is based upon popular usage of the term during the late 1930s and 1940s and is derived from the Keynesian view of full employment as a function of national income or the gross national product. This economic equilibrium, through forecasting and planning, can be achieved with private enterprise and investment; however, the federal government is expected to use compensatory spending and other fiscal tools to raise the national income when the private sector falls short of the investment sufficient for full employment. Thus, this usage implies a proactive role for the federal government and a promise of employment for the labor force.

## **HISTORIOGRAPHY OF THE EMPLOYMENT ACT OF 1946**

The researchers of postwar domestic policy, as well as the biographers of Harry S. Truman, almost uniformly agree that the full employment bill, ultimately enacted as the Employment Act of 1946, is one of the major pieces, if not *the* most important piece, of domestic legislation during the Truman years. Alan Brinkley (1996, p. 264) characterizes it as the “last great battle for the New Deal.” Alonzo Hamby (1973,

p. 60), in his thorough account of American liberalism following World War II, *Beyond the New Deal*, ranks the legislation's importance highly: "More than any other measure, this bill seemed essential to the future of postwar America," he says. Truman biographer Robert Donovan (1977, p. 166) labels the legislation as the "landmark in the Truman administration." A retrospective volume edited by Francis H. Heller (1982, p. 211) with contributions from major figures in the Truman administration describes the act as "fundamental." James Sundquist (1968, p. 54), characterizing it as the "legal mandate for fiscal activism," documents its seminal role in policymaking throughout the years from Presidents Eisenhower to Johnson. And in *Unemployment in History*, John Garraty (1979, p. 231) concludes, "Its passage was a landmark in the history of national economic policy, and also of American political history, for it set up a Council of Economic Advisers, the influence of which on public policy was to be enormous."

Some scholars extend the importance of the Employment Act beyond American domestic policy. William Appleman Williams (1972, pp. 231–239), for example, considers the fear of economic depressions and the desire for full employment as essential aspects of the American "open door" view of the world. He presents then–assistant secretary of state Dean Acheson's testimony before Congress in November of 1944, during which Acheson states, "We cannot have full employment and prosperity in the United States without foreign markets" (p. 236). Williams links the goal of full employment with expansionist foreign policy and the escalation of the Cold War.

Beyond recognizing the importance of the Employment Act, the scholarly research conveys a consensus of opinion on the circumstances surrounding its enactment. Four common themes emerge from the literature.

A major consensus in the literature is that the original full employment bill clearly grew out of Keynesian economic theory. Margaret Weir (1992, pp. 27–58) opens her discussion of employment policy in the United States with a discussion of Keynesian principles, such as compensatory spending, that were embodied in the full employment bill. As Hamby (1973, p. 60) observes, "Fundamentally, the bill was an attempt to write into law the economics of Keynes and Hansen by requiring enough compensatory government spending to wipe out unemployment." In an edited volume on the policies of the Truman

administration, Barton Bernstein and Alan Matusow (1966, p. 47) state, “The intellectual origins of the Employment Act of 1946 can easily be traced to the economic theories of John Maynard Keynes and the famed Beveridge Plan in Britain.” Likewise, Sundquist (1968, p. 61) maintains, “The discussions leading to the 1946 Act centered upon Keynesian concepts and techniques for planning and influencing of aggregates—the ‘national production and employment budget,’ the ‘aggregate volume of investment and expenditure,’ and so on.”

The literature, second, offers a unified voice on the importance of the bill to the liberal community, largely because liberals saw Keynesian policies as the solution to unemployment and its ensuing problems. Brinkley (1996, p. 260) describes how progressives in the labor movement as well as those from the National Farmers Union and the Union for Democratic Action “lobbied vigorously and effectively” for full employment legislation. “Their long-range hopes for stability focused upon a daring new piece of legislation, the full employment bill,” he writes. Hamby (1973, pp. 60–64) says, “It demonstrated the way in which Keynesian economics had captured the allegiance of liberals during the war.” The full employment bill became the centerpiece of the liberals’ postwar agenda and the focal point of legislative lobbying efforts. Donovan (1977) characterizes the bill as “the liberals’ dream” (p. 122) and recounts their aggravation with compromise versions (p. 169). The dismayed reaction of the liberals to the modifications of the “crucial full employment bill” is more fully described by Hamby.

A third point of consensus among scholars is that President Harry S. Truman offered weak support for the original bill and was partly responsible for its dilution. The only notable exceptions to this view are those expressed by people who were part of the Truman administration. Bernstein and Matusow (1966, p. 47) present Franklin Roosevelt as the champion of full employment in his 1944 campaign and characterize his successor as giving only a formal blessing: “Despite Truman’s open endorsement, the bill received wavering support from the administration.” Hamby (1973, pp. 63–64) argues that the White House acquiesced to compromises that weakened the bill. Donovan (1977, p. 122) describes negotiations between the House committee responsible for the legislation and the administration, portraying Truman as willing to water down the measure so that it would be reported out of committee. Weir (1992, pp. 52–53) credits Truman as a supporter of the legislation

but concludes he was unable to command party loyalty or generate public pressure for the legislation.

Fourth and finally, consensus exists on the congressional treatment of the bill. Throughout the debate on full employment, the liberal Senate leaders are seen as pushing the original bill only to be stymied by the conservative House, particularly the Southern leadership. Donovan (1977, pp. 122–123) explains how the bill “floundered” in the House Committee on Expenditures in the Executive Departments, a committee he describes as being dominated by ideological conservatives, especially committee chairman Carter Manasco (D-AL). Hamby (1973, p. 64) quips that this committee rewrote the original bill to offer a “version so weak that Washington wits said it had been ‘Manascolated.’” Brinkley (1996, pp. 263–264) describes the “evisceration” of the legislation by the coalition of Republicans and conservative Democrats.

A consensus in the literature on these four themes surrounding the Employment Act of 1946 is not surprising, because the legislation became the textbook case for a generation of college and university courses on the U.S. Congress—literally. In 1950, Stephen Kemp Bailey wrote an award-winning book on congressional behavior. Innovative for its time, *Congress Makes a Law: The Employment Act of 1946* was a study of legislative policy formation that highlighted the importance of congressional staff and interest groups. Bailey analyzed the support for the legislation by looking at the biographical characteristics of the members of Congress and at the socioeconomic traits of their districts. His method is unsophisticated by current standards but was a major step toward the systematic analysis of legislative behavior. Bailey (1964, Vintage paperback edition) concluded by advancing the theory that the House of Representatives was more conservative than the Senate because it consisted of a more rural, provincial group of people, and that this provincialism led to policies less supportive of a strong federal government.

The four common themes of the literature discussed in the preceding paragraphs all emerged in Bailey’s work. The book opens with the Keynesian origins of the legislation. Bailey proceeds with a discussion of how the liberal community championed the idea of full employment and placed it at the fore of its agenda. He describes key senators who advocated the bill and the instrumental role their staffs played in crafting the legislation. On the other side of the aisle, Bailey delineates the



conservative House members who obstructed the legislation. Bailey portrays Truman as weak, ineffective, and offering support that was too little, too late. His implicit conclusion is that a critically important piece of legislation was diluted by players who behaved less than responsibly in the political process. Most scholars who have come after Bailey share his affection for the original full employment bill and echo his theme that the Employment Act of 1946, albeit a landmark, fell far short of what was called for at that time.

### **VANTAGE POINT OF HISTORY**

This book concurs with many of the interpretations of the full employment bill presented in the literature. In fact, this research reinforces the picture of a dramatic departure from previous policies that the initial legislation offered and the importance of this bill to the liberal community. The Keynesian underpinnings of the proposal and the view that wartime spending validated the buoyant effect of compensatory spending are also accepted without dispute. The important role of the economic planning apparatus that resulted from the Employment Act, notably the Council of Economic Advisers, is implicit in this research as well.

The points of departure with the current historiography, however, are considerable. Foremost, this research does not agree with the prevailing interpretation of congressional behavior on the full employment bill. Specifically, it challenges the conclusion that the proposal split members of Congress along North-South and urban-rural lines and that opponents were “provincial” in their thinking. Instead, it offers a more nuanced analysis of the economic, demographic, and political factors that drove support for and opposition to full employment, drawing parallels to the populist and Federalist-versus-Anti-Federalist traditions in American politics.

This research, moreover, counters the conclusion that Truman responded limply on the full employment bill. It refutes arguments about his alleged willingness to compromise the “full employment” language, and it challenges the view that Truman was detached from the negotiations. As it turns out, Truman was more engaged in the leg-

isolation than President Franklin Roosevelt had been before his death in 1945. A significantly different interpretation of the Truman administration's strategy emerges.

Finally, this research does not treat the full employment bill as a single proposal that, when modified, proved ineffective. The bill, rather, is presented as a package of legislative proposals offered as a comprehensive strategy for achieving full employment. By studying the various elements that made up the full employment bill, one can observe that, just as some elements were diluted by the legislative process, others were strengthened. The legislative dynamics of the Employment Act of 1946 are considered within the broader tensions over the role of the federal government in the American economy.

There are four central elements of the full employment bill to examine as we track its course through the legislative process. First and foremost is the stated responsibility of the federal government to ensure full employment when the private sector falls short, primarily through compensatory spending. A second key element is the apparatus or structure to implement that responsibility. Third is the concept of national economic planning, which likewise forms a core element of such a proposal. And the fourth feature, equally as important as the previous three, is the strength of the commitment—the guarantee of employment—that the federal government is making to the American people in this proposed policy.

Whenever Congress debates legislative proposals, it is difficult to foresee the long-term importance of the action. Grandiose claims about the far-reaching effects—both positive and negative—are all too frequently made during the process. From the vantage point of history it is often easier to appraise the significance of what came to be and what might have been. The long-term significance of the full employment bill lies directly in what it proposed to achieve and how members of Congress responded to its purpose and plan of action. This book studies anew the full employment bill and the resulting Employment Act to explore how the government's response to high levels of unemployment redefined the federal role in job creation.

## **Note**

1. Leon Keyserling, oral history interview by the author, August 11, 1982.