THE DEMOCRATIC
strategist

A Journal of Public Opinion & Political Strategy

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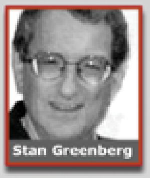

The Democratic Strategist is a web-based publication edited by three leading American political strategists and thinkers—political theorist William Galston, polling expert Stan Greenberg and political demographer Ruy Teixeira. It seeks to provide a forum and meeting ground for the serious, data-based discussion of Democratic political strategy.

The Democratic Strategist has three editorial goals—(1) to provide an explicitly and unapologetically partisan platform for the discussion of Democratic political strategy, (2) to insist upon greater use of data and greater reliance on empirical evidence in strategic thinking and (3) to act as a neutral forum and center of discussion for all sectors of the Democratic community.

As **The Democratic Strategists'** editorial philosophy states, the publication will be "proudly partisan, firmly and insistently based on facts and data and emphatically open to all sectors and currents of opinion within the Democratic community".

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DEMOCRATIC STRATEGIST

STRATEGY MEMO

DEMOCRATS: THE MAJOR REASON WHY IT'S SO HARD TO GET SUPPORT FOR JOB CREATION IS BECAUSE BUSINESS AND MAINSTREAM ECONOMISTS – WHO BOTH BACKED KEYNESIAN POLICIES IN THE 50'S AND 60'S – NOW OPPOSE THEM. NO SERIOUS DEMOCRATIC STRATEGY CAN IGNORE THIS REALITY.

BY

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A TDS Strategy Memo: Democrats: the major reason why it's so hard to get support for job creation is because business and mainstream economists – who both backed Keynesian policies in the 50's and 60's – now oppose them. No serious Democratic strategy can ignore this reality.

By James Vega

In a New Republic column last week[1], Jonathan Cohn pointed to the 500 pound gorilla in the room that nobody has been talking about in the discussion about jobs:

> Obama is doing his part to focus the debate on jobs, to pass legislation that can boost the economy, and to frame a clear political choice for the voters. In short, he's leading. But even the best leaders need help from some followers.…

Cohn notes that the grass roots needs to step up, but then he says:

> The other source of pressure should be the establishment—in particular, the media and business establishments. The broad, although hardly universal, consensus in both worlds is that this country needs a short burst of stimulus spending, to boost growth, followed by a lengthy dose of steady deficit reduction, in order to bring the budget into balance. It's the approach both Ben Bernanke, head of the Federal Reserve, and Doug Elmendorf, head of the Congressional Budget Office, have implicitly endorsed in the last few weeks.
>
> But where are the coalitions of business leaders, whose livelihoods depend on growth, clamoring for this? And where are all the fiscal scolds, whom Obama has tried so hard to please by demanding (unlike the previous administration) that Congress pay for new initiatives and that long-term deficit reduction remain a goal? By refusing to engage more forcefully, and more pointedly, they empower and reward the Republicans who brazenly risked the nation's credit rating—and who refuse to contemplate tax increases, making deficit reduction impossible as a practical matter.

The reality can be stated simply: the business community and mainstream economists—both of whom supported Keynesian policies for "full employment" in the 50's and 60's—now oppose them. This is the central roadblock to job creation today.

Just imagine how radically different the debate over unemployment would be if the Chamber of Commerce and the Business Roundtable were testifying in Congress in favor of policies to reduce unemployment and the leading economists in the American Economic Association were taking out full-page ads in the New York Times calling for forceful action to reduce joblessness to below 6%. Yet, in fact, in the late 1950's and early 1960's actions like these would have been likely to occur had the unemployment rate reached 9% and threatened to remain there.

[1]http://www.tnr.com/blog/jonathan-cohn/95027/obama-jobs-bill-leadership-grassroots-business-support

Democrats need to understand why and how business and the economics profession have switched from support for Keynesian “full employment” policies to firm opposition. It is the vital starting point for any long-term Democratic strategy.

The support of the economics profession for Keynesian policies in the 50’s and 60’s—even as they continued to condemn trade unions as essentially destructive institutions—was based on the fact that avoiding mass unemployment was seen as a classic “win-win”. As explained in the economic textbooks of the era, increasing “aggregate demand” (i.e., consumer, business and government purchasing power) during periods of high unemployment would mobilize idle resources and workers and lead to increased sales and profits, benefiting business as well as labor. In the textbooks the victory of Keynes perspective was therefore not described as the result of a bitter political struggle between progressives and conservatives or between business and labor as the struggle for union rights had been but was rather the tale of wise “new” economists bringing scientific rigor and objectivity to economics and driving away the economic witchcraft and superstitions of the past.

By 1964, when Keynes was voted *Time* magazine’s “Man of the Year,” the MIT school of American Keynesians proudly and widely proclaimed that a grand *“permanent national consensus”* had been reached on the clear benefits for everyone of maintaining near full employment. Unburdened by any excess of false modesty these “new” Keynesian economists cheerfully compared their “revolution” in economics to the scientific triumphs of Isaac Newton in physics and Galileo in astronomy.

It is a charming fable, beloved in the textbooks of the era, but one that has little relation to reality.

Until the Great Depression, general view among both businessmen and economists was that the business cycle was natural and periodic mass unemployment should simply be accepted. Even in the worst economic depressions in America, in the 1870’s, the 1880’s, the 1890’s and the 1930’s, the general business view, reinforced by the dominant “neo-classical” economic theories, was that depressions were a “natural adjustment” of the market mechanism and that any attempts to reduce unemployment by government action would necessarily make things worse rather than better.

Neither business nor conservatives really had any significant change of heart after World War II. Behind the closed doors of their country clubs and executive dining rooms they still agreed with conservative economists like Milton Friedman who argued that Keynes had not actually proved that any basic flaw existed in the turn of the century “neo-classical” model.

Business did offer very clear public statements of support for “full employment” in the 1950’s and 1960’s however, but it was based on an entirely different calculation. With Soviet Premier Nikita Khrushchev running around the world in the 50’s proclaiming that capitalism was doomed and socialism superior, top business leaders indignantly harrumphed to each other over their 20 year old scotches that they *“were god-damned if they were going to have the evening news show U.S. unemployment creeping back up to 10 or 15% percent and give the god-damned Ruskies a huge propaganda coup all across Europe and the third world.”*

Occasionally they added *“even though that’s exactly what that god-damned son-of a bitch Walter Reuther (president of the UAW) needs to cut him down to size.”*

Grumpiness aside, there was indeed a very solid big business consensus in the 1950’s and 1960’s that as long as the U.S. was in a life or death global competition with the “Ruskies,” unemployment needed to be kept at around 4-4.5%. The argument that capitalism had now solved the problem of mass unemployment was a critical part of America’s ideological defense against the threat of communism and there was an entirely genuine concern in the business “establishment” that a return of high unemployment in the United States would produce a huge, worldwide propaganda windfall for the Russians and possibly contribute to parliamentary or extra-parliamentary socialist victories in a number of European and third world countries

Avoiding this scenario was so profoundly important that it even made it worthwhile for big business to put up with the withering, oh-so-British condescension of (as they put it) a *“god-damn tea-parlor socialist fop”* like Keynes or the self-congratulatory antics of the American Keynesians who did everything short of putting on white lab coats and carrying around microscopes in order to convince everyone of how similar they were to real “hard” scientists in fields like physics and biology.

It was, however, also recognized that keeping unemployment at 4-4.5% would not deal with the “structural” unemployment that was a growing problem in the U.S. economy, one that was obscured by conventional unemployment statistics. European countries that were actually successfully insuring “full employment”—stable, non-inflationary unemployment rates of around 3% that provided jobs for virtually every willing worker—required a quite extensive set of social democratic policies and institutions to achieve this result. In Sweden, where such policies were most systematically employed, these polices included comprehensive manpower and labor market programs to aid the jobless with retraining, relocation and temporary public jobs, a central wage bargain (also called a “social contract”) to keep overall wage levels in line with productivity and tax policies that strongly encouraged business and economic growth but also funded generous social programs with high tax rates on the incomes of the affluent.

A few prominent Americans like John Kenneth Galbraith and Michael Harrington argued the case for full employment policies like these in the early 1960’s but most American economists replied that the US could muddle through adequately with very minor fiscal and monetary “fine tuning”—allowing unemployment to increase slightly whenever supply bottlenecks, increasing labor costs or other inflationary pressures began to appear.

The inevitable end of the long boom of the 1960’s, however, coincided with four factors that sent inflation skyrocketing even as employment simultaneously stagnated and unemployment dramatically rose—(1) the huge fiscal and monetary stimulus engineered by Nixon in 1972 to insure his reelection (2) the “external shock” of the 1973 Arab oil boycott (3) the reemergence of Europe and Japan as major industrial competitors after two decades of post-World War II rebuilding and (4) the first of many waves of “job export”—the migration of American factories to third world countries. The result of this economic “perfect storm” was increased unemployment at the same time as a devastating inflation that made every trip to the supermarket a genuine outrage for most average Americans and destroyed the value of the savings accounts they had painstakingly built up over decades.

As a result, when Milton Friedman argued in the late 70's that the "great post-war consensus" supporting high employment should be abandoned in favor of allowing unemployment to reach whatever "natural rate" was necessary to calm inflation he was pushing on an open door. Ronald Reagan gained popularity and won re-election when he and Fed Chairman Paul Volker engineered a recession to tame the inflationary spiral of the 1970's and since then, there has never—never—been any serious business or mainstream economist support for the policies needed to restore the low unemployment rates of the 1950's and 1960's.

This is not really surprising. The Soviet Union is no longer a threat and the lost national economic output is an entirely abstract loss for any particular business while the weakening of labor's bargaining position and the increased deference and availability of willing workers is deliciously concrete. Mainstream economists also no longer see 8 or 9 percent unemployment as a social crisis requiring immediate solution. It is the "new normal."

Thus, in 2008, when leading progressive economists like Paul Krugman, Joseph Steiglitz, Robert Kuttner and Robert Reich correctly argued that a much larger stimulus was necessary to bring unemployment down significantly, **not a single major corporate president, not a single large or small business group not a single leading business publication and not a single major formal or informal group of mainstream economists** supported them. There was indeed still a *"grand consensus"* within American business and the economic profession about unemploymen—but it was now a consensus for letting unemployment remain high, not for taking steps to solve the problem.

The political implications of this new reality are clear. Democrats now need to base their strategic planning on the fact that job creation is no longer in any sense whatsoever a shared national goal or priority. As far as the most powerful economic institutions in American society are concerned, large-scale job creation is just as deeply partisan and ideological an objective as strengthening trade unions or expanding the social safety net. These institutions will passively resist and when necessary actively combat pressure for Keynesian job creation with the same intensity and the same vast supply of resources that they mobilize to oppose other progressive goals. Had they been supportive of more aggressive job creation measures in early 2009, the situation today would be profoundly different.

Democrats should therefore cease making the central issue a debate over how much responsibility Obama, his advisors or various Democratic candidates and officeholders should be assigned for the lack of popular support for job creation because there is a much more important factor involved. Job creation measures today are a distinctly progressive goal, not a consensus one, and it should therefore come as no surprise that the dominant social and economic institutions in America do not count themselves among the most enthusiastic supporters.

It is their opposition, far more than any Democratic sins of omission or commission, that presents the most powerful roadblock to serious measures to create more jobs. This is the unavoidable starting point from which any new Democratic strategy must begin.