



OXFORD JOURNALS
OXFORD UNIVERSITY PRESS

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Reviewed work(s):

Source: *The Quarterly Journal of Economics*, Vol. 90, No. 1 (Feb., 1976), pp. 32-37

Published by: [Oxford University Press](#)

Stable URL: <http://www.jstor.org/stable/1886084>

Accessed: 05/02/2013 19:21

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HANSEN AND PUBLIC POLICY *

JAMES TOBIN

Alvin Hansen was never close to Presidents or politicians, and he never held a major government office. Yet no American economist was more important for the historic redirection of United States macroeconomic policy from 1935 to 1965. As the principal intellectual leader of the Keynesian conquest, Hansen deserves major credit for the "fiscal revolution in America"¹ and for the commitments to employment policy embodied in the Employment Act of 1946. As Galbraith has said, "The debt to the courage and intelligence of Alvin Hansen is especially great. Next only to Keynes, his is the credit for saving what even conservatives call capitalism."²

The channels of Hansen's influence were indirect. By books, articles, speeches, research reports, and Congressional testimony, he changed the climate of opinion—in the economics profession, in Washington, and in the general informed public. Progress was slow, but Hansen was patient, persistent, and persuasive. During the second world war Hansen worked in Washington at the National Resources Planning Board (NRPB) and the Federal Reserve Board. His wartime campaign for full employment after the war had both an inside and an outside audience. Beginning in the academic year 1937–1938, Hansen's classes and seminars at Harvard graduated generations of economists into public service, where they applied and developed Hansen's ideas.

In Hansen's mind and work, scientific interests and policy applications went hand in hand. Galbraith described him as "a man for whom economic ideas had no standing apart from their use."³ His writings are natural blends of the abstract and the concrete, of pure theory and case history, of exposition and advocacy. In these respects, though in scarcely any others, Hansen resembled the man whose doctrines he did so much to advance and adapt on this side of the Atlantic.

Hansen was a leading economist long before his move to Harvard and his conversion to Keynesianism in 1938. From his academic

* David Hsieh, Yale 1976, helped me with this paper and became an admirer of Alvin Hansen in the process.

1. The title of Herbert Stein's indispensable history (Chicago: University of Chicago Press, 1969).

2. J. K. Galbraith, "Came the Revolution," *New York Times Book Review*, May 16, 1965, reprinted in his *Economics, Peace, and Laughter* (Boston: Houghton Mifflin, 1971).

3. *Ibid.*

base at the University of Minnesota he had taken an active part in public affairs; his commissioned studies, committee memberships, and consultantships ranged over state unemployment insurance, dominion-provincial relations in Canada, U. S. foreign economic policy, and social security.⁴ But his debut as a major public figure came in 1939 when he testified before the Temporary National Economic Committee (TNEC).

Begun by Congress the previous year to investigate concentration of economic power, the TNEC hearings had turned into a "showcase for Keynesian economics,"⁵ orchestrated by Lauchlin Currie from his new office in the White House. Currie had long been an advocate of expansionary fiscal and monetary policies. After he moved from Harvard to Washington in 1934, he was one of a small group of New Deal economists urging a bold policy of deficit spending. As he recalls, "we welcomed Alvin Hansen with open arms as our most important recruit. I recall very well arranging for him to be our star witness in the TNEC hearings. . . ."⁶ Currie's appointment as a White House assistant in 1939 indicated that the Keynesians were making progress in what Herbert Stein calls "the struggle for the soul of FDR."⁷ In the crusade launched at the TNEC, Currie was Mr. Inside, and Hansen, Mr. Outside.

For the Washington Keynesians Hansen was more than a recruit, public voice, and name. He articulated the intellectual foundations of their position and gave the Keynesians, according to one of them, Alan Sweezy, "new confidence in both the economic soundness and the social and moral rightness of their policy recommendations."⁸ Characteristically, Hansen's TNEC testimony⁹ went beyond exposition and advocacy to include a novel compilation and interpretation of the facts and figures of public and private investment, saving, and consumption.

4. See Hansen's *New Plan for Unemployment Reserves* (Minneapolis: University of Minnesota Press, 1933); and *Programs for Unemployment Insurance* (Minneapolis: University of Minnesota Press, 1934). Hansen was economic adviser to the prairie provinces before the Canadian Royal Commission on Dominion-Provincial Relations 1937-1938. He was chief economic consultant to the U. S. State Department 1934-1935, advising on reciprocal trade agreements. He was a "public" member of the Advisory Council on Social Security 1937-1938.

5. Stein, *op. cit.*, 167-68.

6. L. Currie, "The Keynesian Revolution and its Pioneers: Discussion," *American Economic Review*, LXII (May 1972), 141.

7. Stein, *op. cit.*, 128-30.

8. A. Sweezy, "The Keynesians and Government Policy, 1933-1939," *American Economic Review*, LXII (May 1972), 122.

9. Temporary National Economic Committee, *Verbatim Record of Proceedings*, Vol. 3 (Washington: Government Printing Office, 1939), 338-47, 356-66, 533-41.

The Keynesian circle in Washington was augmented by recruits from Hansen's Harvard seminars, and from 1940 to 1945 by Hansen himself. During those years Hansen dedicated himself completely to the cause of postwar prosperity in the United States and in the world. On this theme he published books and articles, wrote in whole or in part several NRPB pamphlets, contributed several pieces to periodicals of general circulation, and gave numerous speeches.¹⁰

More than any other single person, Hansen created in Washington and beyond the climate of opinion and understanding that led to the Employment Act of 1946. But his direct role in the history of the legislation was minimal. He was informally consulted at various stages of its tortuous progress.¹¹ He did not participate in drafting, and he did not testify publicly. The central goal of Hansen's crusade had been federal commitment to full employment. The Act expressed this commitment, though in the diluted compromise language necessary to muster bipartisan support. The Act also established machinery for policy advice and review in the Executive branch and in Congress. Hansen knew as well as anyone that actual policy would depend year after year on specific Presidential and Congressional actions.

After the war the teachings of Hansen, like those of Keynes, were absorbed into the general corpus of economics, from graduate courses to elementary texts. Modes of quantitative macroeconomic analysis that were novel when introduced by Hansen and Currie at the TNEC in 1939 or by Hansen and Samuelson at NRPB during the war became routine procedures for economists in Washington and elsewhere. Younger waves of Hansen students entered the arena of

10. The following citations are not exhaustive.

Economic Problems of the Postwar World (Washington: National Council for the Social Studies, National Association of Secondary-School Principals, Departments of the National Education Association, 1942); *The United States After the War* (Ithaca: Cornell University Press, 1945); "The Postwar Economy," *The Postwar Economic Problems*, Seymour Harris, ed. (New York: McGraw-Hill Book Co., Inc., 1943). National Resources Planning Board, *After Defense — What* (August 1941) is attributed to Hansen by D. Howard, *WPA and Federal Relief Policy* (New York: Russell Sage Foundation, 1943); National Resources Planning Board, *After the War — Full Employment* (January 1942) is also credited to Hansen. Together with G. Means, D. E. Montgomery, J. N. Clark, and M. Ezekiel, Hansen wrote NRPB study *The Structure of the American Economy, Part II, Toward Full Use of Resources* (June 1940). Articles by Hansen appeared in *Foreign Affairs* (April 1942); *Atlantic Monthly* (Oct. 1942 and Sept. 1943); *Harper's* (April 1942); *New Republic* (Feb. 1944); and *Nation* (Oct. 1944). Two addresses by Hansen appear in publications of the New York University Institute on Post-War Reconstruction. The *New York Times* reported six Hansen speeches in 1942-1944.

11. S. K. Bailey, *Congress Makes A Law* (New York: Columbia 1950), 24, 46.

public policy, accepted Washington assignments, or undertook careers in government service.

The Hansenian revolution has never lacked opponents, even enemies. Congress killed the NRPB in 1943 shortly after receiving its report on postwar goals. Fearing hostile reactions in Congress, Roosevelt tabled a 1944 "White Paper" on full employment proposed by a group of his economists led by Hansen and Gerhard Colm.¹² In 1945 Hansen was dropped as adviser to the Federal Reserve Board; according to the press account the reasons were complaints by bankers and disagreements between Hansen and Chairman Marriner Eccles on postwar fiscal policy.¹³ Although the Committee for Economic Development endorsed compensatory fiscal policy, most business sentiment remained hostile at least until the sixties and seventies. The Eisenhower Administration purged Washington of Democratic Keynesians but found that many of the economists recruited in partial replacement were also contaminated. The opposition carried counterrevolution to Hansen's home base. A Harvard Alumni Visiting Committee chaired by Clarence Randall of Inland Steel solemnly complained to the President and Fellows of Harvard of the Keynesian bias of the Harvard economics department.¹⁴

Hansen must have found irony in the "new economics" label attached to the 1961-1965 revival of his central ideas, but he certainly rejoiced in the substance. Early in 1966 he joined some "new economists," many of them his own students, in informal celebration of both the achievement of the Kennedy goal of 4 percent unemployment and the twentieth anniversary of the Employment Act. At the time he and his admirers deplored President Johnson's failure to seek taxes to finance his Viet Nam adventure, but no one foresaw how costly that decision would be.

Hansen's central message on macroeconomic policy is familiar to everyone and need not be rehearsed here. But some features of his position are less well remembered and deserve brief reminders.

Hansen is well-known for advocating public expenditure to maintain full employment, not only to counter cyclical recession but also to escape long-run stagnation. What may be less appreciated is that Hansen favored certain government expenditures for their own sake, not just to absorb saving and provide jobs. This is why he said little about tax reduction as a route to full employment.

12. *Ibid.*, 27, 161.

13. *New York Times*, August 15, 1945, 27:4.

14. Galbraith, *op. cit.* For another account of the same incident, see J. B. Conant, *My Several Lives* (New York: Harper and Row, 1970), Ch. 32.

He had strong views about national priorities, and anticipating Galbraith, thought more resources should be allocated to the public sector. He described his postwar plan as a "compensatory and developmental fiscal program."¹⁵ Government, he thought, should assure minimum standards of nutrition, medicine, housing, and education.¹⁶

Government investment . . . is high on the priority list for the reason that many of the gravest deficiencies in our society cannot be met except by a very large increase in the volume of outlays on public improvement and developmental projects — schools, hospitals, urban redevelopment, slum clearance, public housing, flood control, reforestation, soil conservation, irrigation, hydroelectric power, regional resource development, harbor improvement, river transportation, air transport facilities, improved highways, streets, recreational facilities, including national, state, and local parks and playgrounds, and finally, facilities for public lectures, music, art, and cultural activities of all kinds.¹⁷

Clearly Hansen was very conscious of the capital deficiencies inherited from depression, war, and national neglect. The same sense led him to give priority to private investment over consumption in postwar economic planning. He opposed the consumption-oriented Keynesianism of John Pierson and others. He suggested in 1944 reductions in corporate tax rates and generous loss offsets and averaging privileges to encourage risk taking.¹⁸ For the longer long run, however, Hansen, like Keynes, looked forward to the day when capital deficiencies would be made up and full employment would be maintained in an economy of high public and private consumption.¹⁹

Hansen's reputation as a deficit spender should not obscure the abundant evidence that he regarded compensatory fiscal policy as a two-way street, and his standing as the "fiscalist" *par excellence* should not obscure his recognition of the importance of monetary policy.

In 1940 and 1941 he and other Keynesians opposed premature imposition of anti-inflationary measures, correctly arguing — not only against conservative Americans but against Keynes himself when he visited Washington — that slack in the American economy

15. "Planning Full Employment," *Nation*, 159, October 21, 1944, 492.

16. *Economic Problems of the Postwar World*, 11.

17. *Economic Policy and Full Employment* (New York: Norton, 1947), 183.

18. "National Debt, Flexible Budget and Tax Cut," *National Tax Association Bulletin*, No. 8, May 1944, 245.

19. "Postwar Re-employment Problem," *International Postwar Problems*, Vol. 1, 38 (periodical published by N. Y. American Labor Conference on International Affairs).

was still enormous.²⁰ But when Pearl Harbor and full mobilization produced an inflationary gap, Hansen was a strong advocate of heavy taxation and not, one infers, enamored of Galbraith's "dis-equilibrium system."²¹ As for the postwar economy Hansen was not one of those people who feared depression immediately upon demobilization. Pent-up demands and transitional shortages would lead to inflation, he thought, and he warned against precipitate repeal of wartime controls, price ceilings, and taxes.²² His compensatory and developmental program would be needed after the transition, when unemployment would otherwise recur as the major threat. In 1949 he set forth a strong anti-inflationary program, involving both budget surpluses and restrictive monetary policies.²³ The same book contains an extensive and careful treatment of monetary theory and policy and makes clear that he would leave monetary policy out of the tool kit only in the extreme "liquidity trap" conditions of a great depression.²⁴

In 1967 the American Economic Association awarded Alvin Hansen its Francis A. Walker Medal, and I had the honor to present it to him with the following citation:

The American Economic Association awards its highest honor, the Francis A. Walker medal, to Alvin H. Hansen, a gentle revolutionary who has lived to see his cause triumphant and his heresies orthodox, an untiring scholar whose example and influence have fruitfully changed the directions of his science, a political economist who has reformed policies and institutions in his own country and elsewhere without any power save the force of his ideas. From his boyhood on the South Dakota prairie, Alvin Hansen has believed that knowledge can improve the condition of man. In the integrity of that faith he has had the courage never to close his mind and to seek and speak the truth wherever it might lead. But, Professor Hansen, we honor you with as much affection as respect. Generation after generation, students have left your seminar and your study not only enlightened but also inspired — inspired with some of your enthusiastic conviction that economics is a science for the service of mankind. By the printed page you have reached countless others throughout the world. Today, from the vantage of your eightieth year, you can see these men and women, in academic and public service everywhere, teaching, applying, adapting, and — you would be the first to hope — improving what you helped them to learn.

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20. B. L. Jones, "The Role of Keynesians in Wartime Policy and Postwar Planning, 1940-46," *American Economic Review*, LXII (May 1972), 125-33.

21. "The Postwar Economy," *op. cit.*, 21.

22. *Economic Problems of the Postwar World*, 12; *New York Times*, July 7, 1956, VI, 5.

23. *Monetary Theory and Fiscal Policy* (New York: McGraw-Hill Book Co., 1949), 162.

24. *Ibid.*, pp. 185-98, 65-70.