If Nixon Said It,

“We’re All Keynesians Now!”

Richard M. Nixon was full of surprises. As a sitting Vice President he lost the 1960 presidential election to the young and inexperienced politician John F. Kennedy, only to drop down a political notch and lose the gubernatorial election in his home state of California two years later. After most counted him out of any political future, he came back and won the presidency in 1968. A hawk on the Vietnam War, he believed strongly that the communist movement under Ho Chi Minh in Indochina had to be resisted and contained. Yet he later withdrew U.S. forces from Vietnam. An ardent anticommunist, he opened diplomatic relations with communist China. And probably most surprising of all, he taped conversations in the Oval Office that led to his resignation from the Presidency. Nixon was never dull.

In January 1971, midway through his first term in office, Mr. Nixon also surprised anyone who knew anything about macroeconomic policy. On January 4th, he’d had a live television interview with reporters from the three major networks and one from the Public Broadcasting System (PBS). In a February 9th commentary in the *National Review*, William F. Buckley Jr. reported that Howard K. Smith from ABC, one of the interviewers on January 4th, had said that Mr. Nixon had said “I am now a Keynesian in economics.” According to Mr. Smith, Mr. Nixon had made his remark in an informal conversation after the formal interview. Mr. Smith considered the president’s statement akin to a Christian in the crusades saying that, all things considered, Mohammed was right. Mr. Smith thought he had caught the president committing an act of political economic heresy, and to Mr. Smith it couldn't get much better than that. After all, he'd been one of the most strident at writing off Mr. Nixon's future political career in 1962.

Over time Mr. Nixon's statement has been reported in different versions. Later in January, *The Nation* reported that he had said something shorter, "I am now a Keynesian," with no economics qualifier. When I ask my colleagues about Nixon's statement about Keynes, all say he said, "We're all Keynesians now." Several textbooks use this statement as a lead-in to a discussion of Keynesian economics. I've used it in class. The story even gets a chuckle or two once in a great while, usually from a history or political science major, or a baby boomer of any stripe. But if Mr. Nixon said anything about Keynes in 1971, he appears to have implicated no one else in his conversion. His statement appears to have been a singular, personal one.

But what was so surprising about aligning himself with the followers of economist John Maynard Keynes, perhaps the greatest economist of the 20th century? How could one word, Keynesian, illicit such a reaction? Why would conservative commentator William F. Buckley say that a lot of people were snickering about the remark? Some of it has to do with Mr. Nixon and his tenuous relationship with both the Left and the Right in U.S. politics. But much of the snickering and surprise had to do with the political philosophy of macroeconomic policy. And to understand this, we need to start with the ideas of Keynes.

British economist John Maynard Keynes was the most influential economist of the 20th century. He died in 1946, almost 23 years before the first Nobel Prize in Economics. Had he survived in age to his middle 80s he would have been the first recipient of it. He was that good. If there were an economics hall of fame, he'd be there.

Books by Keynes fill a good portion of a shelf in the history of economic thought section of my humble library, and books about his colorful life, his economic theories, and his public service and public policy prescriptions could fill many more.

To get a rough idea about the essence of Keynesian economics and Mr. Nixon's alleged allegiance to it, it's convenient to start in the middle of the Great Depression, in 1936. The U.S. economy in 1936 was in better shape than it had been at the depths of the Great Depression in 1933. The economy had been growing for four years, but the decline in real GDP from 1929 to 1933 had been so great that even four years of robust economic growth still left the unemployment rate at nearly 17%. The economy was better in 1936, but still a mess, and economists didn't have any good ideas about how to improve it. In fact, the reigning classical orthodoxy in economics stated that markets, given time, would adjust to and eliminate high unemployment. The economy would correct itself. In 1936, we just needed to wait.

In 1936, Keynes published his most important book, *The General Theory of Employment, Interest and Money* (usually referred to as *The General Theory*). This book is not an easy read. Most economists have not read it in its entirety. Nobel Laureate Paul Samuelson, whose textbook taught Keynesian economics to generations of college students, described *The General Theory* as follows: "It is a badly written book, poorly organized; any layman who, beguiled by the author's previous reputation, bought the book was cheated out of his five shillings… It is arrogant, bad tempered, and not overly generous in its acknowledgements. It abounds in mares' nests and confusions… In short, it is a work of genius." Even if the work of a genius, its opacity would later require much interpretation by economists, and to the inevitable question about the relationship of Keynesian economics to the economics of Keynes himself.

In *The General* Theory, Keynes theorized that fluctuations in spending in the economy, what he called effective demand, caused macroeconomic fluctuations in output, employment and the price level. For example, when businesses saw a decline in spending, a decline in effective demand, they cut back production and fired workers. A recession ensued. Real GDP fell and unemployment rose. A decline in spending could come from consumers, foreigners, the government, or businesses themselves, if they thought the future looked bleak. Why buy new plant and equipment, for example, when they had so much idle capacity already?

Keynes saw market capitalism as inherently unstable, and the internal self-correcting mechanisms too weak or too slow to rely on. Keynes used his scientific theory of the business cycle, the ups and downs in economic activity, to advocate a normative economic policy. The government should increase its spending to compensate for declines in private spending, and decrease its spending when irrational speculative exuberance drove private spending so high as to cause an inflationary boom. Of course, writing in 1936 Keynes concentrated more on the recession side of the business cycle.

Keynes also emphasized government spending rather than tax reductions as a means of stimulating the economy. He preferred public expenditures on railways and housing, but he praised even pyramid building in ancient Egypt and cathedral building in the middle ages as macroeconomic wealth builders. Keynes thought stimulating the economy by wars and earthquakes would be preferable to doing nothing, as was the prescription of the classical orthodoxy. Consider the following government policy suggested, perhaps tongue in cheek, by Keynes:

> If the Treasury were to fill old bottles with banknotes, bury them at suitable depths in disused coal mines which are then filled up to the surface with town rubbish, and leave it to private enterprise on well-tried principles of laissez-faire to dig the notes up again….. there need be no more unemployment and, with the help of the repercussions, the real income of the community, and its capital wealth also, would probably become a good deal greater that it actually is. It would, indeed, be more sensible to build houses and the like; but if there are practical difficulties in the way of this, the above would be better than nothing. (p.129)

Keynesian policy to fight a recession creates an increase in the federal government budget deficit. If the government leaves tax revenue initially unchanged and increases government spending, it encounters the same situation you do when you spend more than you earn. You and the government have a deficit, one that must be financed by borrowing. Unlike the last three-plus decades in the United States, where we have had deficits in all but four years, in the early 1930s deficits were bad politics. In 1932, even presidential candidate Franklin D. Roosevelt, later author of the activist New Deal program, ran on a balanced budget. The General Theory was still four years away in 1932. Deficits have never been a positive thing in conservative political doctrine. Republicans often campaigned against deficits, attributing them to profligate spending advocated by Democrats, and have often proposed a constitutional amendment to require a balanced federal budget.

We only need this small exposure to the ideas of Keynes and the implications of his policies to see why he has never been the darling of American conservatives. I suggest to my Idaho students that they can do an experiment over summer break. Merely walk through a town in conservative southern Idaho, shout out the name John Maynard Keynes, and see how long it takes before someone to throws a rotten potato at you.

In 1971, a Republican president like Richard Nixon might have been reluctant indeed to advocate Keynesian policies. One does not criticize market capitalism, encourage government activism, and advocate (even wasteful) public works and budget deficits to charm the right-leaning wing of the Republican party into supporting one in the upcoming campaign. Keynesian policies fit much more snugly with the Left, American liberals, Democrats, not with Republicans. Howard K Smith had some basis for his surprise upon discovering Nixonian Keynesianism.

And finally, no picture of the political philosophy of Keynes would be complete without noting that he was an ardent socialist in 1936. He worried deeply about inequality in the distribution of wealth and income, and especially with what he called the rentier aspect of capitalism, where the rich received unearned income merely from having their wealth invested at interest. Tucked near the end of *The General Theory,* in a chapter entitled "Concluding Notes on the Social Philosophy Towards Which the General Theory Might Lead," Keynes placed what a conservative would consider his most damning ideas. According to Keynes, we needed a socialization of investment, an increase in government spending on capital goods so large as to make capital not scarce, i.e., drive the interest rate to zero. Fortunately for Mr. Nixon in January 1971, even few economists had read Chapter 24 of *The General Theory*.

We can safely say that Mr. Nixon was adopting a moderate form of Keynesianism in 1971. Certainly he was not advocating the more radical leftist ideas of Keynes, but thirty-five years after *The General Theory* most economists believed that the government and the central bank have a role to play in macroeconomic stabilization. And when unemployment is thought to be too high, and an election is on the horizon, which is always the case, few presidents can resist the urge to stimulate the economy. In the 1971 television interview, in a response to a question about the high rate of unemployment in the economy from PBS correspondent Nancy H. Dickerson, Mr. Nixon said:

> What we are going to do first is to have an expansionary budget. It will be a budget in deficit, as will be the budget in 1971. It will not be an inflationary budget because it will not exceed the full employment revenues. We also, according to Arthur Burns, will have an expansionary monetary policy, and that will, of course, be a monetary policy adequate to meet the needs of an expanding economy.

This seems like a reasonable version of Keynesian economics. The reference to full employment revenues means that the budget would be in balance if the economy were at full employment. An ardent Keynesian might suggest a larger deficit, but at least Mr. Nixon was not advocating a balanced actual budget for 1971. Expansionary monetary policy, while viewed by Keynes as largely ineffective in the Great Depression, certainly would be an element of Keynesian policy in milder recessionary times.

Mr. Nixon solidified his Keynesian macroeconomic policy credentials later in the same response. After predicting a good economic year for 1971, and a "very good year" in 1972 (the election year) Mr. Nixon said:

> Now having made that prediction, I will say that the purpose of this Administration will be to have an activist economic policy designed to control inflation but at the same time to expand the economy so that we can reduce unemployment, and to have what this country has not had for 20 years, and that is a situation where we have full employment in peacetime without the cost of war and without the cost of excessive inflation. (p. 3)

With his pledge of government activism to reduce unemployment and control inflation, Mr. Nixon buried again the ghost of Herbert Hoover and what we now know to be the flawed macroeconomic policy of the early 1930s. He also buried the ghost of the restrained macroeconomic policies of the Eisenhower/Nixon administration, policies that in part lead to the Kennedy victory in 1960. Yes, he was a Keynesian in economics, but more important to Mr. Nixon, he knew that being a Keynesian in economics was good politics the year before an election. The electorate wanted the government to expand the economy, to do something about unemployment. If they were all Keynesians now, so was he!