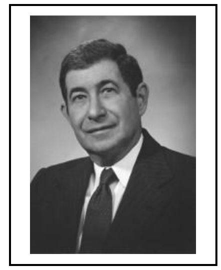

Mitchell's Musings 11-18-13: The Strength of Steel

Daniel J.B. Mitchell

Much is currently being written about President John F. Kennedy as the fiftieth anniversary of his assassination approaches. Although there is naturally a great deal of attention to the Cuban missile crisis, in second place as a Kennedy confrontation – but now largely neglected – was the 1962 confrontation with the steel industry – and really U.S. Steel – over a price increase. Kennedy denounced the increase in strong language as inflationary http://www.youtube.com/watch?v=aAVAJ6mwBVE and it was rolled back shortly thereafter. But there is more to the story.

We know now – as a byproduct of the Nixon administration's Watergate scandal – that there was recording going on in the White House not only under Nixon but previously under Johnson and Kennedy. The steel incident in 1962 did not end the matter. As a result of the steel confrontation, Kennedy was seen as in conflict with the business community, something he wanted to avoid happening again. Even if steel prices were frozen in 1962 thanks to the confrontation, what would happen in 1963? In election year 1964?

Part of the anxiety about steel prices reflected concern about the U.S. "balance of payments." In that era, exchange rates were fixed under the Bretton Woods system and the dollar was increasingly under downward pressure in exchange markets. Steel price increases were seen as harming exports of steel and other products made of steel (and encouraging imports), thus aggravating the balance of payments problem. And, of course, there was general concern about inflation. You can hear Kennedy and his advisors fret about steel in April 1963 (as the prospect of another price increase loomed) in three parts at:

http://www.youtube.com/watch?v=XN-6RmagJtg,

http://www.youtube.com/watch?v=ukA84gynl8w, and

http://www.youtube.com/watch?v=fEMUodE3HEg.

Despite the poor audio quality, it is clear from the recording that averting a second confrontation with the steel industry was a high priority of the participants. The hope is that some kind of acquiescence to "selective" price increases on particular steel products would avoid a repeat of what happened the year before. If selective prices were raised, that action would somehow be perceived differently than an across-the-board increase.

What brings this episode to mind was a recent release of the transcript of an oral interview with emeritus professor **Lloyd Ulman** of the University of California-Berkeley's economics department by the campus library. Ulman reviews his entire career but starting on page 107, there is extensive material on his recollections of the Kennedy Council of Economic Advisors in the early 1960s, where Ulman was on leave as a staff economist.[1] He was also involved in researching a book on the United Steelworkers union. The Council at that time featured such luminaries as members as Walter Heller (chair), James Tobin, and Kermit Gordon. Staff members apart from Ulman included Arthur Okun, Robert Solow, and Barbara Bergman.

In the oral history, Prof. Ulman adds an observation that has been missed in earlier descriptions and histories of the Kennedy wage-price guideposts program. Ulman puts that start of the demise of the guideposts as the 1962 steel confrontation. Later histories, including attempts to discern whether the program had any effect on wages and/or prices, tend to put the demise later under President Johnson, who inherited the program. Of course, the program ended up under Johnson only because of the assassination. That fact creates a "what if" question. If Kennedy had not been assassinated, had run for reelection in 1964, and had won, what would have happened to the program?

What Ulman notes is that Kennedy began to refer to the guideposts after the 1962 steel incident as the CEA's program, not the President's program. In short, he was not waiting for evidence as to whether the program was effective or not before beginning to disengage from it. Kennedy was certainly aware of the tension with organized labor the program had engendered. Even the president of the Steelworkers union did not support Kennedy in the 1962 confrontation. The rationale for the confrontation was that the administration had encouraged a moderate wage settlement by the union to avoid upward pressure on steel prices but the steel industry had raised prices anyway, thus comprising Kennedy. But the head of the union, according to Ulman, regarded the steel price increase simply as the basis for his next negotiated wage increase and thus saw no reason to denounce it.

Of course, Johnson did end up inheriting the wage-price program and so it may have survived longer than it would have under Kennedy. Johnson may have believed that his persuasive powers to influence wage and price setters were more effective than Kennedy's had been. But it seems likely, based on Ulman's oral history recollections, that the guideposts program might well have faded away faster had Kennedy lived than turned out to be the case.

[1] http://bancroft.berkeley.edu/ROHO/narrators/ulman_lloyd.html. Photo of Ulman on top of first page.