THE BROKER STATE

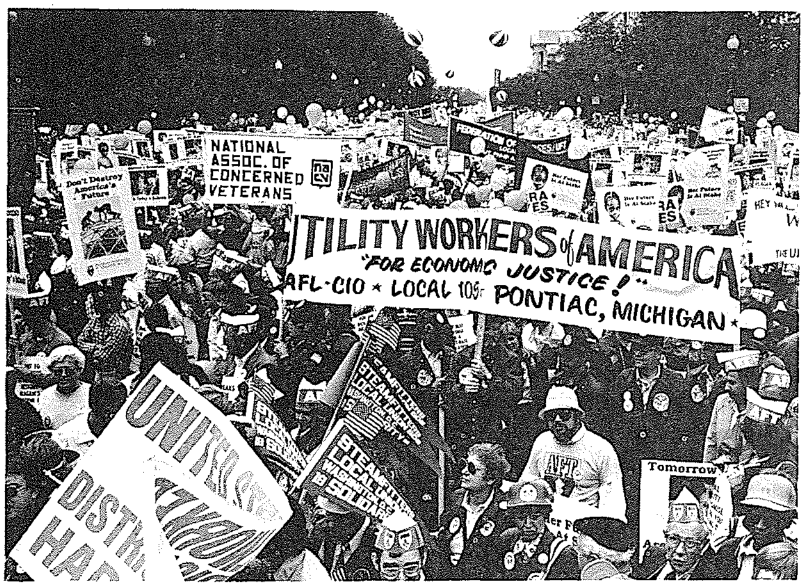
Ever since the New Deal began, the future role of the federal government in the nation's social and economic life has been a matter of intense debate, especially at election time. Conservatives have warned of creeping Welfare Statism; populists and liberals have often envisioned a regime increasingly dominated by Big Business and serving its interests. Both visions have been wrong. America has not become Sweden, nor has business ever become a unified, dominating force in Washington. Under Republicans and Democrats alike, historian Otis L. Graham, Jr., suggests, the federal system has remained essentially what it became under Franklin D. Roosevelt—the Broker State. Here, he reflects upon the virtues and flaws of America's peculiar *ad hoc* regime and its prospects.

by Otis L. Graham, Jr.

When the Great Depression reached rock bottom in the winter of 1932–33, there were not many American models of a government adequate to deal with the catastrophic economic crisis.

During the 1920s, the State had been responsible for some promotion of agriculture; a scattering of targeted subsidies for emerging industries such as oil, airlines, radio; a tariff designed to protect influential business sectors. But federal policy had no significant influence upon the economy, upon science and technology, let alone upon the arts, education, health care. The federal budget during the 1920s never absorbed more than three percent of the gross national product (GNP), and *all* government purchases (federal, state, and local) never surpassed 11 percent.

The "American System," to use Herbert Hoover's phrase, was not laissez-faire capitalism. Calvin Coolidge did not entirely abandon the antitrust or regulatory roles inherited from the administrations of Woodrow Wilson and Theodore Roosevelt. But the State during the '20s did not merit the labels Regulatory State or Welfare State that would later be invented.



A small sampling of America's many interest groups was in evidence at the Solidarity Day parade in Washington, D.C., on September 19, 1981.

Perhaps the only significant public figure to worry about this *ad hoc* arrangement was Hoover. As Secretary of Commerce (1921–28) and as President (1929–33), he labored to design what historians have called the Associative State. In his view, an activist government should promote *rational* economic development through information sharing and social research, while encouraging private interests to combine in trade associations. All this was to be accomplished voluntarily. Hoover did not quite have time to realize his vision of a proper political economy—one in which the State would be far more active than in William McKinley's day. But Coolidge must be judged wiser, or at least luckier, than the innovative Hoover. He pronounced the modestly active and entirely probusiness government of the prosperous 1920s a perfect institution, properly married to a cornucopian capitalism. He held the line against such changes as were urged on him by farmers or by other social tinkerers, including Hoover. And he went into retirement just eight months before the Great Crash.

Thus there were no adequate models for the role of government in the malfunctioning capitalist economy after 1929. Franklin D. Roosevelt and his New Dealers were interested in strategic ideas to provide coherence to the torrent of reforms that they pushed in 1933 and after. Their attempts to introduce forms of national planning during the 1930s are most instructive. Drawing upon the nation's successful experience in mobilizing for World War I and upon what would now be called "corporatism," early New Deal planning efforts stressed government-business partnerships (with labor a weak third party). Institutionalized in the National Recovery Administration and the Agricultural Adjustment Administration, these partnerships had as their goal the preservation of existing producer groups and, secondarily, the protection of consumers through price- (and some wage-) fixing under federal supervision. How such measures would add up to a general economic recovery was never quite clear. And this uncertainty led New Dealers to contemplate a central federal agency for coordinating diverse activities and insuring strategic coherence. The failure of this effort to create a coordinated national-planning program, which had considerable business and conservative support for a time, is an interesting story that has been dealt with elsewhere.*

Beginning in 1935, the older liberal faith in breaking up large corporations—based more on a suspicion of bigness than on confidence in the beneficial effects of competition—eclipsed the partnership-and-planning gospel. FDR began to attack Big Business and accumulated wealth and to stress antimonopoly efforts. To contemporaries, he appeared confused. To recent historians, it seems that he was attempting a blend of the planning and the free-market traditions within liberalism. The one went back to Theodore Roosevelt's New Nationalism, the other to Woodrow Wilson's New Freedom. By 1937, FDR aimed at a planning state that used antitrust as a tool. This was the final New Deal, requested in 1937-38 through bills establishing presidential planning, Supreme Court reform, and party realignment.

But FDR was beaten; the real New Deal was rejected. By 1938, the New Deal momentum was spent, and threats of war in Europe overshadowed the domestic agenda. Everybody, including Roosevelt, agreed to call the new State system "the New Deal." Yet one could argue that the New Deal that FDR wanted was never put in place. Federal activity had vastly expanded, but in the haphazard fashion characteristic of American politics. Regulatory assignments were enlarged,

*See, for example, my book, *Toward a Planned Society: From Roosevelt to Nixon* (Oxford, 1976).

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and collective bargaining was enforced; a system of social insurance, work relief, and welfare measures was instituted; subsidies were granted to farmers, industries, and regions (the South and the Rocky Mountain West). The federal share of GNP had tripled, and Washington was, for the first time, a more important fiscal influence than were state and local governments combined. But it was not a planning State, nor a market-restoring State, as earlier liberal theory had projected.

What, then, was the American State's role at the end of the 1930s? The State had certainly been transformed in size and function, its lead assignment a de facto (and, after the Employment Act of 1946, a de jure) responsibility for economic management. But which Americans were its potential or likely beneficiaries? What would be its direction? Was it benign or malevolent? Who called the tune?

Several early answers deserve mention. Strident predictions that the post–New Deal State could not be reconciled with capitalism or liberty came from various conservatives, among them ex-President Hoover. James Burnham wrote a scolding book in 1949 entitled *The Managerial Revolution*, concluding that federal technocrats would run the country now, not in the interest of the proletariat but in pursuit of efficiency and their own power. Perhaps Burnham, entering his conservative phase, listened too much to some of the New Dealers themselves. James M. Landis and other liberal bureaucrats wrote books celebrating the public administrator's role as social manager. Both Burnham and Landis were wide of the mark. The State did not take its cue from the bureaucracy, which was in any event not so benevolent, malevolent, or efficient as these early premonitions suggested. Nor did it take its lead from the President, at least not in any sustained way. The post–New Deal system was a weak-president system, following the defeat of Roosevelt's 1937–38 plans.

And the goal of the State? It was to remedy the many fundamental market failures besetting American capitalism—redistributing income to maintain demand, regulating monopolies that could not be dismantled, nurturing economic development in lagging regions, protecting the environment and natural resources, ensuring the economic security of all established interest groups, even, parsimoniously, the disadvantaged. Thus protected from its own worst tendencies, the capitalist system would produce a decent life.

While part of this design conformed to FDR's view of the post–New Deal State in America, many who shared his goal doubted the system had even a reasonable hope of success. Some liberals, including Eleanor Roosevelt and the Brain Truster Rexford Tugwell expressed doubt that the presidency itself, the government's medley of powers, and public understanding of it all added up to a workable system. The system lacked a strong center, a planning presidency. Other voices of dissent were heard from the Left, dimly. Socialists predicted that the New State would soon founder and open the way for their own Norman Thomas, since capitalism could not be stabilized; or, they predicted that the New Deal system would slide inexorably into fascism (after *that*, socialism). Marxists, their criticism of bourgeois reformism undercut by the popularity of the New Deal, produced no coherent analysis of the emergent post–New Deal State.

The most perceptive contemporary observer, it seems from this distance, was journalist John Chamberlain, whose *The American Stakes* (1940) described a "Broker State" as the outcome of the New Deal experimentation. Chamberlain correctly saw that the New Deal had abandoned the early hope of a centrally concerted recovery-and-reform effort, accepting in its place the role of broker among organized interest groups. Washington itself had thus become a sort of modified marketplace, a "parallelogram of pressures," a place of exchange where groups within the economy brought their special problems and bargained for State-conferred advantage. He did not claim that it was a particularly rational arrangement, but it was democratic in appearance, flexible in goals.

Chamberlain's brokerage government disappeared during the year after his book appeared, replaced by the planned mobilization of wartime. The State was hardly the responsive broker from 1942 to 1945; it had reasonably clear goals of its own to pursue and necessarily made decisions that did not derive simply from interest-group bargaining. But the wartime centralization ended with the victory of 1945. After a brief debate over a proposal for peacetime planning as embodied in the original Employment Act of 1946, brokerism returned. The post–New Deal system began its long career, surviving, with modifications, from the administration of Harry S Truman to that of Ronald Reagan.

To stress continuity in this way may disturb those who are impressed by the differences in policy when Republicans and Democrats alternate in the White House. Even more might it affront those who, looking beyond policy to structure, note changes that have worked their way into American government since 1945.

These folk have a point. To begin with, the State is much larger now than it was in 1940. By the early 1970s, government at all levels claimed about one-third of the GNP for goods, services, and transfer payments. More important readjustments of power had taken place, of which we mention only a few. With the rearmament triggered by the Korean War came a level of spending for national-security purposes that has built up the most imposing network of power in America—what Eisenhower dubbed the "military-industrial complex." Another structural evolution required longer to mature—the transformation of intergovernmental relations, of our federalism.

Before the New Deal, state and county governments were generally antiquated. Large cities struggled with problems unrecognized by the states. Regional governments were nonexistent. But a surge of federal grants during the 1930s and again during the 1960s wrought significant changes, producing a more integrated and effective system. Thanks in part to "one-man, one-vote" court decisions, state governments, at least most of them, have become more active and less exclusively bound to rural interests. To a slightly lesser extent this has happened, at least in some parts of the nation, to counties. Substate and multistate regionalism has made a cautious appearance.

Thus the postwar years have not been a static time for governmental roles or structures. One notes also the wave of the "new social regulation," which arrived with the late 1960s, adding consumer, workplace, environmental protection, and "affirmative action" responsibilities to the multilayered State. In Congress we have seen changes in committee and subcommittee numbers and staffing, and a new budget process. Money is more important in electioneering than ever before, reflecting the ability of TV, radio, and direct mail to by-pass older means of reaching the voter or partisan activist. The federal judiciary plays a role in policy-making that infuriates those who remember more deferential judges and more explicit statutes. Federally financed public-interest lawyers have shifted some influence to the formerly uninfluential—consumers, the poor. These and other structural changes in the State were not in place at the end of the 1930s, nor in 1945. Who is to say that these changes have not given us, even before the election of President Reagan, a new State in a new political economy?

I argue that they have not. Despite changes in ruling party, with what sounds like sharp shifts of ideology, the continuities are impressive. What might be called the decision of 1932–36 continues to hold: Self-guiding capitalism abandoned, the State plays a major role in social management. And what might be called the compromise of 1937–38 has also held: The new Liberal State neither restores markets nor carries out plans but brokers the requests of interest groups while using Keynesian tools to stimulate economic growth.

Busy on several fronts, the State has not possessed a clear conception either of what the national interest requires or of what national goals ought to be. Moreover, it has lacked any central institution to survey the social or policy whole. During the last years of the 1970s, as during the 1930s, the State in all its parts made policy in pieces, incrementally, responding mostly to the pressure of organized interests and occasionally to its own internal impulses. The State was mammoth and omnipresent, but agreeable and not inclined toward coercion. The American government rarely acted to *redistribute* power or to discipline private groups, preferring to serve as a mediator and broker delivering favors in proportion to pressure. As the component parts of the State dealt with interest groups, an invisible hand presumably orchestrated the whole of policy toward some public good.

What is the result of this mode of governing, when the "political" has so much to do with the "economy"? Since the 1930s, there have been and continue to be claims that "the big capitalists" would control the State. But the facts have not confirmed this prediction, at least not in its simple form. In the New Deal days especially, but also thereafter, the State has responded to noncapitalist groups and even organized some of them for smoother participation. The New Deal assisted labor and devised a program for tenant farmers, and the State in recent years has proven quite receptive to the lobbies of groups one would not exactly call capitalist—environmentalists, rifle owners, the radio listeners of the Reverend Jerry Falwell. As for the capitalists themselves, their tendency to disagree, as with the steel industry in conflict with steel users, refutes such simplistic theories of "big capitalist" domination. And of course the State responds to more than just the Washington lobbyists; it listens to the pollsters, to the governmental bureaucracy itself, and to much else.

But typically the American State has responded to interest groups. Despite the cacophony and frequent irrationality of results, as when the government both promotes and condemns the production and use of tobacco, there is a pattern beneath the confusion. A group or groups develop a grievance, usually an economic one. Congressional hearings are held to clarify and legitimate the issue, with only the strongly affected groups appearing. A program is set up, and neither in the legislature at the program's birth nor during its lifetime in the executive branch is it scrutinized for its compatibility with other social concerns.

Political scientist Theodore Lowi has called this a condition of "permanent receivership" in which "any institution large enough to be a significant factor in the community shall have its existence underwritten" by public authority. Lowi calls this sort of policy-making "unintentionally reactionary," but the word conservative is preferable, for it stresses the tendency to preserve existing arrangements against the hardships of change whether they come from market forces, technology, or even (as with Chrysler, New York City, and now Continental-

Illinois Bank) bad management. Others have used the word "corporatist" to characterize that strong tendency in the modern State to blur the distinction between public and private realms by handing over not just the design but the operation of public programs to representatives of certain economic groups. The pursuit of public ends through private instrumentalities is prevented with great difficulty from becoming the pursuit of private ends, using public authority but removing it from public accountability.

Through all this, the State remains, for the most part, neutral. It entertains no notion of rearranging the society beneath it, and apart from foreign policy, almost never conceives and pursues some goal it has not first heard about from some clamoring group of citizens. There have not been many exceptions, and those usually came through the courts. Federal judges brought the State to the aid of the American Indians, a weak interest group, and launched the epochal drive to bring legal equality to the black population. One of the things that made Lyndon Johnson's War on Poverty so exceptional was that it had not been conceived by the poor who stood to gain most from it.

Whether fairly distributed or not, a banquet of benefits was spread by the postwar political economy (the Department of Defense and its contractors receiving more than a generous share), and leaders of both parties claimed credit for it. The system was stable by any standards, including those of our own national history. No radical economic or political developments interrupted the relatively smooth flow of events. The broker system was more popular than unpopular. Its critics were vocal, but ineffective: John Kenneth Galbraith, warning in *American Capitalism* (1952) of an inflationary bias in any system that rewarded all claimants and lacked a basis for discipline; socialists, who did not like liberal capitalism; Barry Goldwater; various right-wing extremists; academic writers who pointed out that interest-group bargaining tended to leave out the poor, the consumer, the unborn, and the environment. These critics could not get the system changed.

Equally ineffective was another group of critics of considerably more power—sitting presidents of the United States. From Eisenhower to Carter, without exception, they left a record of formally and informally expressed frustration. Assuming FDR's stance, that the president was the people's only elected voice, they each had carried what they (at least) knew to be majoritarian, national programs into the minefields of the Broker State. Save only for LBJ, and then only for two years, each had been substantially blocked. "There are more impediments to our success than we had imagined," conceded John F. Kennedy. "Government doesn't work," Richard M. Nixon scrawled on the margin of a speech draft by William Safire.

This perception of governmental impotence was shared by many in the academic and public-administration fields. Political scientist James M. Burns called it *Deadlock of Democracy* in his 1963 book, stressing both the electoral and the governmental sources of a system that resisted policy redirection. Parties had lost their 19th-century vigor, Congress had weakened its leadership and multiplied its committee fiefdoms, the presidency was ill organized for domestic management. Many critics noted that it seemed to require crisis to move the deadlocked postwar system—a thalidomide tragedy, a Santa Barbara oil spill. What Henry C. Hart, another political scientist, wrote about water policy could stand for all policy: "General interests are asleep, to be awakened only by floods and droughts, by catastrophe."

A series of writers specialized in describing and deploring the thick minefield of Madisonian checks: congressional committees, iron triangles, the permanent government. This, at least, was the preferred imagery of liberals, who stressed the veto design of governmental structure. More conservative observers saw paralysis in another way, preferring the image of "overload," a system swollen to immobility as a result of having taken on too much.

These perceptions of the State, while not unheard over the earlier years during which the system was in place, reached a new intensity as the 1970s advanced. The 1970s brought problems that the system did not handle well. During the boom era, roughly from wartime demobilization to the recession of 1970, growth had underwritten the system. For a number of still-disputed reasons, the growth curve slowed and then flattened in the 1970s, as inflation and stagnation became compatible and gradually lowered the American standard of living. Productivity increases disappeared, and foreign competition began to cut deeply into formerly invulnerable American industries—auto, steel, machine tools, electronics.

Journalists, politicians and some academics wrote about "the decline of America," and many of them, regardless of party, found the errors of the State to be contributing causes. The Republican version of this State criticism blamed overregulation, overspending, and overtaxing: old ideas with little analytical but much political merit. The Democratic version of the State-based explanation of the troubles of the late-1970s economy came to be called neoliberalism, and stressed the inability of interest-group liberalism to permit a shift of economic resources from old industrial regions to new.

The complaints of the late 1970s were, by far, the most serious. They came not only from its enemies but from its friends. Joseph Califano, Lyndon Johnson's White House aide and Jimmy Carter's Secretary of Health, Education and Welfare (HEW), wrote in 1978:

> Power is fragmented in Washington these days, not just within the executive branch, but by legislative mandates within HEW itself. . . . Political party discipline has been shattered by the rise of special-interest politics in the nation's capital. Washington has become a city of political molecules, with fragmentation of power, and often authority and responsibility, among increasingly narrow, what's-in-it-for-me interest groups. . . .

If there is an underlying crisis of the State, as so many are saying, it was visible in 1978, well before the election of a man whose domestic model, in liberals' eyes, is the government and America of Calvin Coolidge. Carter's presidency began auspiciously with promises of competence, awareness of limits upon the welfare mission, and healthy suspicion of official Washington's errors. Some saw in him a new leader with a more disciplined conception of the basic liberal agenda, representing an opening to long-excluded groups and regions. But by 1978 his popularity had peaked, and the political pundits were writing about another failed presidency.

Historians are likely to improve upon the voters' verdict, citing, on the positive side, Carter's impressive environmental record, his attack upon a range of social and governmental problems, and his struggle to base U.S. foreign policy on some conception other than anti-Sovietism.

More important in revising our understanding of the Carter era will be a broader perspective on the evolution within all Western political economies during the 1970s. England, Finland, Sweden, and Switzerland were among the countries that experienced revolts from the Right (and Center) against rising taxes and welfare expenditures. Reagan brought that middle-class revolt to the front of U.S. politics somewhat late by European standards, though Barry Goldwater, George Wallace, and, in their way, Jimmy Carter and Jerry Brown were harbingers of what was coming.

The change of direction initiated by the election of Mr. Reagan is yet incomplete, too close for clear appraisal. But even early inspection reveals that the promised revolution—which was to include at least a partial dismantling of the New Deal—has not quite occurred. Budget cuts capped the growth, but did not threaten the existence, of welfare programs; nor did they touch middle-class social-insurance entitlements such as Social Security, Medicare, and Medicaid. The rest of the "supply-side" experiment was botched by the administration or compromised by congressional opposition. The tax cut lacked economic rationality, enriching mostly the already rich. Deregulation went slowly, except in the environmental field, and the new federalism went almost nowhere.

As it stands now, changes in tone and agenda are considerable, but the Broker-Regulatory-Welfare State still presides. Tax and regulatory policies have been tilted more strongly toward the owners of capital, social-welfare policy has become slightly more astringent, military interests have fattened, the growth of the State sector has leveled off. These changes would never have brought recovery in 1983–84 without a mounting deficit, and the deficit, of course, is a time bomb.

Not Reagan policies but the last remission of the energy crisis brought a reprieve from that major source of inflation and other economic trouble.

In short, this is an uncertain time, almost certainly not leading back to the happy hands-off days of the '20s. For the last decade at least, there has been a remarkable outpouring of ideas suggesting how to fix our erratic State. Should Reaganism falter, the planning idea will doubtless come forward again, as it did during the 1930s and again (as with the Humphrey-Javits, then Humphrey-Hawkins employment bills) during the 1970s.

This time there will be a difference. Planning is called Industrial Policy (IP). Though IP has many forms and advocates, most formulations respect market forces, disavow "the rigidities of national economic planning," and aim at cooperative government-capital-labor mechanisms to restructure failing industries or equip new industries for international competition, or both. Every Democratic candidate for president in 1984 went on record in favor of some version of IP.

When things begin to go awry, it is a good rule to ask if one is posing the right questions. Perhaps the problems of the contemporary American State are not internal, matters of design and mission, but also and primarily outside, in some social pathology or maladjustment? Many have thought so. Jimmy Carter told the public that a "malaise" of the American spirit was at the root of government troubles. That his case was not convincing does not discredit the idea.

Consider the centrifugal forces at work: political parties continuing to weaken, voters disaffiliating, and legislators taking increasingly independent and unpredictable positions. The family has splintered variously into divorced, remarried, and live-in units. Racial, ethnic, sexual, and religious groups have become ever more assertive of prerogatives endorsed or hinted at during the civil-rights era. Large-scale immigration began during the late 1960s, almost all of it from the Third World, bringing fresh recruits, numbering more than one million a year, to swell America's economically and socially isolated underclass.

Our 19th-century forebears would tell us that Americans have always been a heterogeneous, fractious people, insufficiently united by common values or purpose. But the last third of the 20th century appears to be the time of the unraveling of even the earlier social and civic ties that eased the task of governing. An old theme in our political discourse seems now more pressing: the articulation of a national purpose.

Earlier efforts to supply national direction have merely demonstrated the difficulties—the pieties contained in the report of Dwight D. Eisenhower's Presidential Commission on National Goals (1960), Nixon's "lift of a driving dream." Still the efforts continue. Reagan reaches backward to the individualistic materialism of the 1920s, the "American dream," and joins this with the nation's unifying antipathy toward the Soviet adversary.

The vision of some of his critics has stressed the inclusion of the formerly excluded; they struggle to offer a sense of social purpose other than the eternal and hazardous arms race with Moscow. But the Democrats, too, now talk of "economic growth" as the central American goal, without commencing the painstaking effort of showing how such growth may continue without the limitless population growth that undermines all gains.

An alternate vision lies in the direction of what Worldwatch Institute's Lester Brown calls a "sustainable society," or what Franklin Roosevelt once termed "a permanent . . . national life," requiring population stabilization and profound changes in people's attitudes toward resources, the biosphere, and self-fulfillment. Much work remains to be done by its advocates to make that vision clearer, more compelling, free of the taint of stagnation.

A populist Democrat might say that what is needed is the time to allow a new sense of national direction to build from below. But leaders understandably think that they must lead, and will be sorely tempted, if matters worsen, to substitute a national purpose more familiar and binding than either individual enrichment or some obscure Buddhist economics of stability and redistribution. That might well someday be war, since we have not yet invented its moral equivalent.

The underlying crisis of the Broker State, when the center does not hold, reflects a social loosening beneath the apparatus and daily performance of government. We "have lost our core project," to use sociologist Amitai Etzioni's words, a condition for which the State possesses only dangerous remedies. Thus, whatever our present difficulties, there may be worse trials ahead for this elderly, dear republic.