

***Eisenhower and the Budget:
Neustadtian ‘Amateur’ or Machiavellian ‘Professional’***

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In his classic study, *Presidential Power: The Politics of Leadership*, Richard Neustadt used Dwight Eisenhower’s handling of the Fiscal 1958 budget plan as a case study to substantiate his view that the modern presidency was no place for amateurs. In light of a quarter-century of Eisenhower revisionism, we now have a more positive understanding of the 34th president’s leadership skills. My purpose in this paper, therefore, is threefold: (i) to review the validity of Neustadt’s critique of Eisenhower’s leadership in the Fiscal 1958 budget imbroglio; (ii) to consider more successful examples of Eisenhower’s budget leadership and assess whether these were more typical of his presidential performance in this policy domain; and (iii) to analyze why Neustadt ignored these latter examples and what this said about his concept of presidential leadership. In addition, I offer some thoughts as to whether the Eisenhower model offers any guidance for Barack Obama in dealing with the budget deficit problems that look likely to have a central role in the nation’s political agenda for the duration of the second decade of this century.

The significance of the FY1958 budget plan episode

On 15 January 1957, just as the president’s FY 1958 budget plan was being submitted to Congress, Treasury Secretary George Humphrey gave a press conference in which he declared that “there are a lot of places in this budget that can be cut” and warned that without expenditure economies to provide the wherewithal for growth-boosting

tax cuts, “I predict that you will have a depression that will curl your hair.”

Eisenhower had approved the press release on which Humphrey based his remarks (excepting the impromptu comment on hair-curling depression), but the latter’s words were widely interpreted at the time as a direct attack on the president’s budget. This apparent critique of its legitimacy encouraged congressional Democrats to demand cutbacks in the national security estimates, while the GOP right focused its animus on domestic spending proposals. The end result of the appropriations process was that Congress lopped some \$4 billion in total off the president’s spending request of \$72 billion, a significant retrenchment of 5.5 percent. Eisenhower headed off the largest defense economies but the military still took big cuts; his foreign aid proposals were gutted; and the administration’s main domestic initiative – a school aid bill – was shot down by a Southern Democrat-GOP alliance that used economy concerns as added justification to its states rights rationale.¹

Neustadt correctly understood that Ike’s position reflected ambivalence about a Modern Republican budget that expressed the centrist identity on which he had campaigned for reelection in 1956 but laid the foundations for expanding expenditure throughout his second term. His criticism focused on Eisenhower’s lack of understanding of the risks to his professional reputation in letting Humphrey speak out. By ignoring the bargaining advantages that submitting his first budget since reelection gave him, the president had failed to ask this question: “How may Humphrey’s presentation make mine (and me) look when I have endorsed both.” The answer, according to Neustadt, was that it made him look foolish and weakened his bargaining position, with the consequence that he lost influence over the budget appropriations process.²

Without doubt, the handling of the FY 1958 budget plan did not reflect well on Eisenhower. Usually deeply involved in the final stages of budget preparation, he was distracted from giving it his customary attention because of the demands of the election campaign and the Suez/Hungary crises in late 1956. The president received a nasty shock when briefed on 14 December that the spending commitments in the plan would produce a \$80 billion budget and renewed deficits by the end of his second term.³ It was this revelation that prompted George Humphrey to lobby for a strong demonstration of the administration's commitment to control spending.⁴ In allowing him to do so, the president mainly wanted to flag up the need for significant economies in future budgets rather than the present one, but neither he nor his colleagues made this clear in their various public remarks after the Humphrey press conference.⁵ To make matters worse, Humphrey's off-script warning of a hair-curling depression suggested the imminence of one without immediate cuts. Media headlines, notably in the *New York Times*, elided the two issues to imply their inter-linkage.⁶

In essence, the episode was a botched attempt at hidden-hand leadership. Eisenhower sought to use Humphrey as the messenger for bad news, but an inept public communications strategy let him down in this particular instance. As a result he ended up looking like Neustadt's amateur rather than Fred Greenstein's Machiavellian professional. Whether, Neustadt was justified in building the episode into case study proof of Ike's political ineptitude is another matter. Arguably the episode marked not a typical example of Eisenhower's budget leadership but a moment of transition in both its substance and style.

Eisenhower's second-term budget leadership

In his first term Eisenhower had been able to have his budgetary cake and eat it. Fiscal responsibility was quickly restored in the wake of the Korean War and the shallow recession of 1953-54 to produce balanced budgets in FY1955-1956. Post-Korean defense retrenchment and the New Look military cuts had brought the national security budget under control. Meanwhile, GOP control of the 83d Congress and the slender Democratic majorities in the 84th muted political pressures for higher spending. Significantly the two major expenditure initiatives of the first term did not feature in the administrative budget – the 1954 Social Security amendments were financed through payroll taxes and the 1956 Interstate Highway Act levied a tax on users to finance construction of the new road system.

In his second term, however, spending pressures made it more difficult to sustain fiscal balance. Renewal of Cold War tensions after the détente of the mid-1950s intensified demands for higher defense spending. With enlarged majorities in Congress—especially in the wake of the recession-affected midterms of 1958, the Democrats renewed their traditional drive for domestic program expansion and innovation. These developments made it ever harder to hold the line against the return of deficits prefigured in the FY1958 budget plan.

As a consequence, only one budget was out of the red in Eisenhower's second term and the recession-hit Fiscal 1959 deficit of \$12.4 billion (2.6 percent GDP) exceeded in dollar terms any New Deal imbalance. In response, he abandoned the moderately conservative Modern Republican agenda of his first term to focus on fiscal conservatism in his second. Seeing red ink as the surest recipe for inflation, his greatest domestic concern because he feared its erosion of US economic strength, Eisenhower grew more steadfast in resisting demands for higher spending.

In doing so, his style shifted from hidden-hand to overt and combative leadership. Compared to his first term, Eisenhower made more explicit use of the presidential podium to promote his goals, resorted to increasingly strident partisan rhetoric in attacking liberal Democrats as ‘the Spenders,’ and became more personally involved in constructing bi-partisan conservative coalitions in Congress to oppose liberal Democratic spending initiatives. As he told one confidante, “I realize that to be conservative in this situation – and flatly to say so – can get me tagged as an unsympathetic, reactionary fossil. But my honest conviction is that the greatest public service we can do for our country is to oppose wild-eyes schemes of every kind.”⁷

Three episodes exemplified his new pugnacity in pursuit of his budgetary goals:

(i) ***The Sputnik crisis:*** Despite Democratic claims that this Soviet technological success exposed the folly of Eisenhower’s defense penny-pinching in surrendering rocket-technology ascendancy, he successfully held the line against big defense increases. Conviction that Soviet rockets were less accurate and less in number than the Russians claimed and certainty that the US B-52s were a superior form of A-bomb delivery fortified his stubbornness. Revelation in 1961 that the so-called missile gap was utterly illusory proved Ike right. By then, Eisenhower was no longer in office, of course, but the episode had left him with a disdain for his Democratic critics as demagogues willing to subordinate the national interest to partisan gain. This conviction made him less willing to compromise with them in later battles over the budget.

Only a president with Eisenhower’s defense expertise could have had the personal confidence and the public support to buck demands for post-Sputnik military expansion. The clamor for higher military outlays, especially on missile

development, came from not only the Democrats but also many in his own party, notably its Rockefeller wing. Eisenhower also rejected the defense expansion recommendations of the Gaither Committee, an expert panel he had commissioned to investigate military and deterrence needs. According to biographer Stephen Ambrose this was one of his finest hours as president because it saved his country – and indeed the world – an entirely unnecessary intensification of the arms race.⁸

(ii) ***The 1958 recession:*** Federal Reserve monetary tightening to safeguard against inflation pitched the economy into its severest recession since the 1930s in late 1957. Gambling that the automatic stabilizers would suffice to prevent the downturn becoming prolonged, Eisenhower determined not to promote new stimulus initiatives for fear that these would become permanent additions to spending programs. This prompted an effort by the congressional Democratic leadership to take control of economic management for the first time since the modern presidency had assumed such responsibility in the 1930s. Despite some initial successes, however, all their anti-recession spending initiatives fell victim to Eisenhower's use of the veto or his threat of one, including a public works bill that received initial congressional approval with majority GOP support. The vetoes revitalized Republican morale and breathed new life into the conservative coalition that had lost some cohesion as a result of the Little Rock crisis. According to Minority House Whip Lesley Arends (R-Ill) the president's show of leadership on this score "really firmed things up."

Eisenhower also resolved a split among his own economic advisers over the desirability of temporary tax reduction to stimulate the economy. One group, including the CEA, Vice President Nixon and Labor Secretary James Mitchell, considered this an essential stimulus. However, the president sided with Treasury

Secretary Robert Anderson, who feared that tax cuts would fuel inflation and deficits because congressional Democrats could not be relied on to support a modest and temporary cut in preference to a large and permanent one that would boost the deficit and aggravate inflation. As it transpired the economy recovered in midyear, enabling Eisenhower to claim that his administration's program had overcome the recession without aggravating inflation.⁹

(iii) Facing down the Democrats in 1959: Following the landslide midterm success, liberal and moderate Democrats were confident of enacting a host of costly and deficit-enhancing initiatives in 1959 to strengthen economic recovery and build a record for victory in the 1960 election. Eisenhower himself anticipated "the bloodiest battle we have ever had," over the budget, one he did not expect to win but was determined to fight. According to a journalist confidante, fears about a surge of inflation in a recovering economy and the international repercussions for the dollar convinced him that balancing the FY1960 budget would be "one of the two or three most important political battles of his life."¹⁰ It was one he would win hands down. Despite possessing the largest congressional majorities of the postwar era, the Democrats ended up enacting appropriation bills that were in line with presidential insistence on spending control and a balanced budget. The big political loser was Senate Majority Leader Lyndon Johnson (D-TX), who had hoped to further his presidential ambitions through demonstration of his capacity to unite conservative Southerners and liberal Northerners in support of a Democratic program.¹¹

In addition to energizing the bipartisan coalition in support of his veto as in 1958, Eisenhower rallied public opinion in support of his budgetary policy. Realizing that the balanced-budget battle cry could not elicit popular enthusiasm on its own, the president focused on warning of the inflationary dangers of deficits that affected

everyone. As one adviser noted, making inflation the Republican issue “would have us be *for* an honest dollar rather than *against* public services.” In support of this, the president himself lobbied friendly newspaper publishers to run cartoons and editorials warning of the dangers of inflation.¹² *New Republic* columnist Richard Strout lamented that he had turned the tables on the Democrats after the midterm catastrophe with “the bogey words ‘inflation,’ ‘spenders’ and ‘deficits.’” In admiration for his performing “the political miracle of making economy popular” at home and pursuing peace abroad, *Time* magazine made Eisenhower *1959 Man of the Year*.¹³

Why the endurance of ‘Eisenhower the amateur’ in *Presidential Power*?

Why did *Presidential Power* feature Eisenhower in his least effective episode as budget leader over the more numerous and arguably more significant examples of his success in this role? There is grudging recognition of a ‘new’ Eisenhower in 1959 but the significance of this development is downplayed. According to Neustadt it was “conceivable but unlikely” that Eisenhower had belatedly come to understand his office and his power. In his view, a president making himself a new man in his seventh year “must be assumed a stranger, still, to politics and power.” To Neustadt, it was the first-year battles that shaped a president’s image and established his reputation.¹⁴

This raises questions as to whether a president can resurrect his reputation in office or whether early reputation remains forever fixed. Bill Clinton and Harry Truman surely provide examples of presidents who grew in office after initially less than effective performances in their first two years. Conversely, Roosevelt’s reputation as political maestro took a battering in his second term because of miscalculations over court-packing and economic policy.

It is also difficult to accept Neustadt's explicit comparison of FDR and Ike. In his construct, the former was sensitive to power and vastly confident in its use and his sense of what to use it for. By contrast, Eisenhower's relative insensitivity to politics "was reinforced by a self-confidence that wavered least when 'politics' was furthest off, and by a set of purposes that raised his eyes too high or cast them down too low to see the middle ground where strategy and tactics meet."¹⁵ This hardly squares with the Eisenhower that bested the Democratic congressional leadership over the Sputnik defense scare, 1958 anti-recession initiatives and the 1959 battle over the budget. Far from being above the battle, Ike clearly relished getting involved in the political conflicts over his budgets in 1958-59. As he once told GOP leaders, "When I'm in a fight, I want every rock, pebble, club, gun, or whatever I can get."¹⁶

However the real clue as to why Neustadt does not rate the second-term Eisenhower is arguably provided in the final chapter of *Presidential Power*, entitled "The Sixties Come Next." Looking to the immediate future, he avows: "We are confronted by an evident necessity for government more energetic, policies more viable, than we have enjoyed in the Fifties."¹⁷ This suggests that Neustadt's low opinion of the second-term Eisenhower has more to do with the substance of his policy than the style of his leadership. Quite evidently he values a president who uses the power of his office within the pluralistic American political system to address new problems and move the nation forward. It is a valid criticism of the second-term Eisenhower, however, that he only held the line against change, in other words his political and policy achievement was defensive rather than innovative.

Without doubt, too, Neustadt's admiration for FDR and to a lesser extent Truman reflected support for the liberal political economy that they promoted. In this regard, Eisenhower's success in the battle against inflation carried significant costs for

full employment and economic growth, the key indices of economic wellbeing in the New Deal tradition. Not until 1965 did unemployment levels return to those of 1957 levels under the impact of the ‘new economics’ tax cut proposed by Kennedy and enacted under Johnson. Eisenhower’s determination to balance the Fiscal 1960 budget denied the recovering economy needed stimulus, with the result that it tipped back into recession in late 1960. This development suggested that he exaggerated the inflation threat at cost of tackling the more severe problems of slack and stagnation. Arguably, therefore, his 1960 budget, regardless of its political success, constituted the greatest fiscal policy error by any president between FDR’s ill-judged drive for a balanced budget in 1937 and LBJ’s 1965 decision to fund the Vietnam War without raising taxes.

Nevertheless, this critique of Eisenhower is not in essence that he aspired to be “above politics,” which Neustadt restates in the final pages of *Presidential Power* in expressing hope that the nation will have the opportunity to choose from “experienced politicians of extraordinary temperament” in 1960.¹⁸ Instead, it bears testimony that the 34th president was a canny and successful political operator in pursuit of his policy goals that Neustadt, with some justice, considered wrong-headed in the wake of the 1958 recession.

The Lessons for Obama

Any pronouncement on what the 44th president can learn from the 34th in dealing with the deficit must be made with caution because the fiscal and political situation is so different in 2010 to the 1950s. The deficit problem is vastly greater, the budget is a different entity (entitlements make up 62 percent of spending compared to 26 percent in 1960 and defense is a much smaller share), the economic contexts are wholly

dissimilar, and intense partisanship contrasts with earlier congressional cross-voting. Nevertheless, three lessons can be drawn – albeit with circumspection.

(i) The Eisenhower experience indicates the danger of moving too fast to tackle the deficit before the economy is fully in recovery. Timing the shift from stimulus to restraint will be vital for Obama.

(ii) Related to this, Eisenhower's anti-inflation obsession inhibited his recognition that recovery did not mean that unemployment would rapidly return to pre-recession levels. His insensitivity on this score helped the Democrats win a landslide in the 1958 midterms. Moreover, his refusal – despite clear warnings of a pre-election downturn – to take preemptive action against a new recession in 1960 was a critical factor in Richard Nixon's narrow defeat. In parallel with this, the Obama administration has incurred criticism for being too keen to promote the-recession-is-over message that means little to the 15 million still unemployed and the many others still fearful of losing their jobs. Whatever happens, unemployment is unlikely to return to a 5 percent level till 2014. Eisenhower's failure to appreciate the significance of unemployment in 1959-60 stands as a warning to Obama about the political dangers of assuming that recovery solves the jobless problem.

(iii) Eisenhower's successful anti-deficit campaign was the overriding domestic priority of his final years in office. The Obama administration, by contrast, has incurred criticism for pursuing an overly diverse agenda in its first year in office. If and when it turns to deal with deficit reduction, it would do well to copy Eisenhower's singular focus on this issue and wait until the start of the second term to do so. However, the budgetary challenge facing the 44th president is infinitely greater because it will require a pro-active strategy to reduce entitlement costs and enhance tax revenue rather than the defensive one that Eisenhower pursued.

Notes

1. For fuller analysis of the budget imbroglio, see: Fred I. Greenstein, *The Hidden-Hand Presidency: Eisenhower as Leader* (New York: Basic Books, 1982); Iwan Morgan, *Eisenhower versus 'the Spenders': The Eisenhower Administration, the Democrats and the Budget, 1953-60* (London: Pinter, 1990), chapter 4; and John W. Sloan, *Eisenhower and the Management of Prosperity* (Lawrence: University Press of Kansas, 1991), pp. 98-102.
2. Richard E. Neustadt, *Presidential Power: The Politics of Leadership* (New York: Signet, 1964), Chapter 6 [quotation p. 117].
3. Minutes of Cabinet Meeting, 14 December 1956, Anne Whitman File (AWF)-Cabinet Series (CS), box 7, Dwight D. Eisenhower Presidential Library (DDEL).
4. George Humphrey to Eisenhower, December 9 and 18 1956, and January 8 1957, AW-Administration Series, Box 9, DDEL.
5. Minutes of Cabinet Meeting, 9 January 1957, AW-CS, Box 8, DDEL; Morgan, 82-84. For Eisenhower statement, see in particular, "Press Conference Remarks, 23 January 1957," *American Presidency Project*.
6. *NYT*, 17 January 1957, A1; Greenstein, p. 121.
7. Eisenhower to Arthur Burns, 12 March 1958, AW-Eisenhower Diary Series [EDS], Box 31, DDEL.
8. MCP, 4 November, 22 November, 6 December, 1957, AW-EDS, Boxes 27-28, DDEL; Dwight D. Eisenhower, *The White House Years: Waging Peace, 1956-1961* (London: Heinemann, 1966), pp. 221-22; Stephen E. Ambrose, *Eisenhower the President* (London: Unwin, 1984), pp. 434-35.

9. Morgan, 99-123; Sloan, 143-49.
10. Memorandum of a Meeting in the President's Office, 3 December 1958, AW-EDS, Box 37, DDEL; Edwin Dale, *Conservatives in Power* (Garden City NY: Doubleday, 1960), p. 206.
11. For discussion of legislative maneuvers over the budget and internal Democratic disarray, see Morgan, 127-51.
12. "Annual Message Presenting the Economic Report to the Congress, January 20, 1959," *APP*; Eisenhower, *Waging Peace*, pp. 386-87; Don Paarlberg, Memorandum for General Persons, 24 January 1959, Gerald Morgan Papers, Box 4, DDEL.
13. TRB, "Washington Wire," *New Republic*, 8 June 1959, p. 2; *Time*, 4 January 1960, p. 12.
14. Neustadt, 162.
15. Neustadt, 162-63.
16. Minutes of Leadership Meeting, 13 January 1959, White House Office-Legislative Meetings Series, Box 3, DDEL.
17. Neustadt, p. 180.
18. Neustadt, pp. 182-83.