

A NEW HISTORY  
OF LEVIATHAN



# A NEW HISTORY OF LEVIATHAN

Essays  
on the Rise  
of the  
American Corporate  
State

EDITED BY  
RONALD RADOSH AND MURRAY N. ROTHBARD

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# Preface

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RONALD RADOSH and  
MURRAY N. ROTHBARD

It is now widely understood that the United States in mid-twentieth century is a Leviathan Corporate State—a political economy dominated by giant multinational corporations whose extensive domain, operating with the levers of government, extends from the local retail outlet to firms negotiating for rights to explore oil deposits offshore of Saigon. But the corporate state, whose pervasive influence has recently been subjected to sharp critiques by Herbert Marcuse, Charles Reich, and Phillip Slater (in *The Pursuit of Loneliness* [Boston: Beacon Press, 1970]), is by no means a new phenomenon. The corporate leviathan began to emerge at the turn of the twentieth century, after an era of substantial laissez-faire had proceeded to industrialize and urbanize the nation.

The essays in this book reveal how and in what manner the corporate state developed in twentieth-century America. They show how a sophisticated group of large corporate reformers managed to replace a freely competitive economy and make a new governing class, through the use of reform mechanisms to mold the government into a mighty instrument of monopolization and cartelization. From Theodore Roosevelt to Woodrow Wilson to Franklin

D. Roosevelt to their corporate backers, down to the intellectuals who forged theoretical apologia for the new corporatism, these essays show how these sophisticated corporatist reformers sought to stifle the fierce winds of competition and to achieve what James Weinstein has called the "stabilization, rationalization and continued expansion" of the new political economy.

The ideology of these corporatist reformers was liberalism, but this was scarcely the liberalism of popular myth and image. Arthur M. Schlesinger, Jr., a noted spokesman for the popular image of liberalism, once wrote that liberalism in America has been ordinarily the movement on the part of the other sections of society to restrain the power of the business community. This sort of statement assumes the existence of a broad popular movement, staunchly opposed by business, that arises to challenge and curb the one-sided power of corporate enterprise. But new historical research, much of it presented in this volume, has shown the fallacy of the popular conception. The new twentieth-century liberalism was *not* antibusiness. On the contrary, new research has shown that liberalism has been the ideology of the dominant business groups and that these groups have consistently favored state intervention in the economy in order to regulate and cartelize business activity. As Gabriel Kolko has remarked in *The Triumph of Conservatism*, we have had regulation not by, of, and for the mass of the people against large business; rather we have had regulatory mechanisms designed, operated, and staffed by the men who run the corporations themselves—a form of corporate-inspired self-regulation carried on under government aegis.

Furthermore, liberal historiography has generally depicted twentieth-century America as a conflict between good-guy Democrats, leading a farmer-labor Populist coalition against big business, in conflict with laissez-faire, business-minded Republicans. This book demonstrates that

both parties have been dedicated to a large, business-dominated corporate state, with the Democrats perhaps a bit more sophisticated and intense about establishing and advancing the corporatist system.

Thus, *A New History of Leviathan* transcends the ideology and historiography of liberalism. One unusual aspect of the book is that the selections were made by, and three of the essays written by, two editors, each of whom launch their joint critique from widely differing perspectives. Murray N. Rothbard is one of the intellectual leaders of the new "right-wing libertarian movement"—a movement that has emerged out of what has come to be called the Old Right, the American libertarian tradition beginning with Jefferson and Paine and continuing in the twentieth century in the thought and politics of such people as H. L. Mencken, Garet Garrett, Oswald Garrison Villard, John T. Flynn, and Senator Robert A. Taft. A firm believer in laissez-faire capitalism, Rothbard is a free-market economist, a former contributor to *National Review*, and a member of the executive committee of the National Taxpayers Union.

Ronald Radosh, on the other hand, emerges from the ranks of the New Left. As an undergraduate and graduate student at the University of Wisconsin, he was an active member of the Wisconsin Socialist Club, and functioned as an associate editor of the radical journal, *Studies on the Left*. Working with this group, he was among those who developed the critique of the system and ideology of corporate liberalism, a term that came into widespread use and popularity with the political leadership of Carl Oglesby<sup>1</sup> in the mid-1960s and the emergence of Students for a Democratic Society. Unlike Murray Rothbard, Ronald Radosh is a libertarian socialist who believes in the creation of a

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<sup>1</sup> Carl Oglesby and Richard Schaul, *Containment and Change* (New York: Macmillan, 1967).

radical consciousness as a prerequisite for the forging of a socialist politico-economic structure.

How is it that an archexponent of laissez-faire capitalism can coedit a collection on the Leviathan Corporate State with a firm believer in the necessity of socialist revolution? The answer is that each, because of his critique of liberal ideology and concepts, has been able in his own work to transcend the ideological myths that enable the large corporations to mask their hegemony over American society. One might look only at the editors' essays on Herbert Hoover (Rothbard) and the New Deal era (Radosh) to see how the transcendence of liberalism has enabled each author to bypass the mythology that has blocked full comprehension of these respective periods. To liberals, Hoover was the bad guy and F.D.R. the good guy. Democrats blamed the Depression on Hoover for his allegedly laissez-faire policies (much as Republicans were later to blame Harry S Truman for "losing" China), and praised Roosevelt for taking strong affirmative action on behalf of the poor and unemployed.

But as the authors show, Herbert Hoover was actually the precursor of the entire New Deal system, and Roosevelt only carried out to its logical end the politics developed by Hoover and other elements of the corporate economy. Adherence to the liberal framework prevents others from grasping the fundamental truths about these periods, as the essays point out in detail. Awareness that the nature of liberalism has been distorted to mask large corporate control over American politics is essential for interpreting our past development, and for understanding how the Leviathan Corporate State operates today.

There are, of course, major political and philosophical differences between the editors, and therefore between the authors of the essays in this volume. Most obviously, one favors removing the privileges of the large corporations and returning to laissez-faire, whereas the other favors a



decentralized socialist economy. But political differences may be submerged when it comes to using basic analytical techniques, when it comes, in short, to challenging the preeminent liberal ideology of mainstream corporate America and its academic and intellectual servants. On this issue the authors and editors stand together, and it is our hope that this book will carry forth the challenge to the intellectual underpinnings of the Leviathan Corporate State.



# Contents

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Preface by Ronald Radosh and Murray N. Rothbard	v
Introduction, A Profile of the Corporate Elite by William Appleman Williams	I
Woodrow Wilson and the Political Economy of Mod- ern United States Liberalism by Martin J. Sklar	7
War Collectivism in World War I by Murray N. Rothbard	66
Herbert Hoover and the Myth of Laissez-Faire by Murray N. Rothbard	111
The Myth of the New Deal by Ronald Radosh	146
Policy-Planning for the Establishment by David Eakins	188
James Burnham: Exemplary Radical of the 1930s by James Gilbert	206
American Foreign Policy and National-Security Management by Leonard P. Liggio	224
Suggested Readings	260
Notes on Contributors	262



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# INTRODUCTION

## A Profile of the Corporate Elite

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WILLIAM APPLEMAN WILLIAMS

Perhaps the greatest importance of the Pentagon Papers resides in the clear evidence provided in those documents that the men who wield power know what they are about. Not, of course, in the sense that they are immune to the unconscious forces that affect all men; or that they correctly anticipate the outcome of their various enterprises. The crucial point is that the leaders do proceed from philosophies, objectives, and data to their conclusions, policies, and actions. They do not make policy willy-nilly, in absentminded casualness; they knowingly undertake to accomplish precisely what they have carefully decided upon.

Such knowledge is a three-edged sword. First, it makes the world a more scary place to pursue life—let alone happiness. Yet, second, it does lay one ghost of the historical profession: no one can now seriously maintain that the elite knows not what it does; meaning that it will no longer do to write history as if the men who made the decisions did not use their minds. That is a great advance, for in truth the issue has always been not whether they thought, but how and what they thought. Still, there is the third edge of knowing (one that these authors unfortunately

ignore): if consciousness can commit these violations of democracy and equity, what can control consciousness?

That question will be faced a bit later. Consider now another truth offered by the men and women who risked much to give us the Pentagon Papers: the visceral and far-ranging elitism of the leaders of a society ostensibly committed to the principle and practice of responsive and responsible representative government. It has been argued, with some force, that the Founding Fathers were guided by the exquisitely contradictory concept of elitist democracy. I suggest instead that most of those men sought to realize the idea of a stratified community in which those with wealth and power acknowledged and sought to honor certain duties and responsibilities to those who were less favored, among which was the important obligation not to misuse their inferiors. The true architects of elitist democracy, I would argue, were the Jacksonian Democrats.

However one decides that issue, what we now have is conscious, willful, and managed elitism with very little representation, responsiveness, or democracy. And that is precisely the condition that the authors of this volume are concerned to comprehend: to understand the origins and development, to analyze the nature, and to probe the consequences of the existing elitist political economy. Given their subject, it is important to realize at the outset that they do not write as members of one school or faction. Each of them is significantly different from the others in one or more vital respects. Their interests vary, their minds work in tangential, even crisscrossing, patterns, and their personal philosophies and politics span a broad spectrum.

That in itself makes this collection impressive: different men dealing with different evidence in different ways arriving at conclusions that reinforce each other. Another striking feature of the volume is the cumulative impact of the various approaches, data, and analyses. American corporate capitalism is an extremely powerful instrument consciously designed and laboriously created to control human



and natural resources within very clearly understood limits, and to use those materials for purposes very largely defined by a tiny minority of the population. *Control, organize, rationalize, and deploy* are the words that repeatedly come to mind as one works his way through these essays.

All these writers avoid the traditional snare of setting ideas and economics off against each other as exclusive categories. They understand that there is no necessity to choose between those dynamic aspects of life—and policy-making. The true question concerns the nature of the interaction. They are dealing with four kinds of men who have come to complement each other in the evolution of the contemporary American elite; and, individually and collectively, the authors reveal how each type has matured by incorporating himself with the other three.

Thus the modern business director, learning from the necessity of rationalizing his labor force as an essential element of production (meaning to insure routine profits and power), and needing sustained access to the government's vast fund of capital provided by the citizen taxpayer (and to various other government services), has no choice but to become a reformer and a politician. His support for reform is often limited to the minimum number of changes required at any given moment. And he may focus his political energy on keeping a firm hand on local and state government, making only an occasional foray into the national arena.

But the economic leader who seeks full membership in the corporate elite must go further in both activities. And to do so he must become, in some fashion and to some degree, an intellectual. In one respect, of course, the director of any large-scale economic enterprise is already an intellectual: he has proved his ability to make sense of, and thereby master, one segment of reality. If he is to extend that power of command into the greater world, however, he must enlarge the range of his intellect. Over the years, a growing number of such men have directly expanded the

scope and power of their minds. Others have relied more heavily on the research foundations and the universities, or on the professional intellectuals who have gone into the marketplace with the hope of making a killing by merchandising that kind of service. But, whatever the technique, the requirement must be met in order to be admitted to the high councils of the elite.

In a similar way, the modern politician, perhaps most fully, and certainly first, typified by Woodrow Wilson, recognizes that he must abandon the nineteenth-century strategy of serving as the honest broker for various economic interest groups and move on to acquire the more difficult skills of systematizing the entire political economy. That gives him at least as great an, if also a different, economic interest and stake in the system as the one held by the traditional nineteenth-century entrepreneur. For the modern politician loses power if he cannot sustain a minimum level of performance by the economic system.

Like his economic counterpart, therefore, such a politician must become something of an intellectual. He must be able to comprehend how the pieces go together even if he does not have the skills to find that out for himself; and it is an insular error of academicians to assume that only they have that ability. Finally, since the system has never functioned in a routinely effective manner, such a politician must be a reformer who is able to muster the public support (or manipulate the general indifference) that is required to effect the necessary changes of the moment.

The intellectual who seeks to scramble up the sand hill to the antechamber of the elite must first of all cease being a scholar and become a servant of the system. There is some confusion about the nature of this change. Contrary to much criticism of such men and women, they continue to use their minds with traditional rigor. They merely apply their abilities to a particular aspect of reality: the continuing operation of the existing system. The ones who gain most influence (and related rewards) are of necessity

energetic, astute, imaginative, and effective. The system needs all the help it can buy—or seduce. Such an intellectual, even if he began his serious work pursuing an interest in the inequitable distribution of income, or the regressive nature of the income tax, must master the economics of the corporation and the intricacies of the interlocking system. It does him no good, after all, to answer questions that are not asked by the corporate elite.

He must also become a subtle politician: one of those who deal only in influence rather than power. For the giants among the elite (themselves rather impressive intellectuals) have seen to it that experts are a glut upon the market. Their strategy has been awesome: they have created, in the disguise of what most citizens consider a college education, a vast system of unimaginative vocational training paid for by the very parents who consider it an escalator to power for their children and the key to the general welfare. It has been a covert coup d'état of almost classic proportions, and the failure of any of these authors to explore and expose it is the only major defect of their work. The product of such an education who joins the system becomes an intellectual who can only be described as an efficient (and often well-paid) combination of court jester, royal favorite ever looking over his shoulder, brilliant eunuch, and uncommitted devil's advocate.

He is also a reformer. First, and understandably, in his own interest: either to obtain a pension through less demeaning devices than are currently effective, or to extend the civil service system to all who have written a position paper for a cabinet member. Second, and more in keeping with his services, to rationalize the pecking order so that his recommendations are not rewritten by a mere administrative assistant. Third, and most consequentially, because he knows the system must be reformed if it is to have any chance of survival.

And so to the reformer. He very probably suffers most of all. Almost by definition, and surely by much honorable tradition, the reformer is expected to specialize in moral

issues. Yet, beginning with Wilson (even with Theodore Roosevelt), the politician has claimed that power base for his very own. Even the intellectuals and the sophisticated corporation bosses have cut into the territory. The reformer has little choice but to become an intellectual or a politician specializing in advocating the grievances of the worker, minority group, the taxpayer-as-consumer, or the citizen as human being. He can, even today, be sporadically effective, but he earns little credit or satisfaction. Some other member of the elite expropriates the praise for any idea that works, or blames him for those that fail. Most painfully, the reformer knows how little he has changed reality.

The truth, of course, is that the corporate elite views morality as a mostly outmoded—surely last-ditch—means to other ends. Everything must be organized, rationalized, and managed. No room at the top for morality save as a sometime instrument of manipulation. But in reality that is dangerous nonsense: the most absurd of the dreams that we humans have ever remembered the following morning. It is, likewise, the most frightful bargain that Faust can negotiate with the Devil. For if signed, the two become one. Better to be an errant man than survive as an instrument or a subject.

So we return to the issue of consciousness. These authors argue that the existing corporate system has carried us well onto the threshold of a gentle totalitarianism. They imply that consciousness, if married to morality, can save us from entering that hell. That means they have a deeply moving faith in you, the citizen-as-reader. They believe in you so fully that they do not think it is necessary to go on to say that we all together must do something about the existing state of affairs—meaning the existing state.

I, too, believe in you, but I shall say more: We will need more than consciousness and morality. We will have to muster our will, our courage, and our very best ideas.

Otherwise the system will systematize us all.

# Woodrow Wilson and the Political Economy of Modern United States Liberalism

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MARTIN J. SKLAR

. . . Most persons are so thoroughly uninformed as to my opinions that I have concluded that the only things they have not read are my speeches.

—Woodrow Wilson, 1912

Perhaps the greatest source of historical misconception about Woodrow Wilson is the methodological compartmentalization of his mentality into two distinct components, the “moralistic” and the “realistic” or “commercialistic,” as if they were discrete and mutually exclusive. From this point of departure, if one thinks or acts “moralistically,” he cannot be considered capable at the same time of thinking and acting “realistically,” at least not consistently: if one is a “moralist,” his political behavior can be considered as deriving only secondarily, if at all, from an understanding of, or a serious concern for, the affairs of political economy.

According to this approach, wherever Wilson is perceived to have spoken or acted for the “little man,” “democracy,” “liberty,” “individual opportunity,” and the like, he was “liberal” and moralistic; wherever he is perceived to have spoken or acted for corporate interests, economic expansion abroad, and the like, he was “con-

servative," "commercialistic," "expedient," or realistic. Where Wilson supported measures promoting large corporate interests at home or abroad, he is considered to have forsaken his moralism, to have been driven by political expediency, personal egoism, or implacable social and economic forces, or to have gathered the unintended consequences of a misdirected moralism. In this view, Wilson the moralist is generally considered the true type, and Wilson the realist, the deviant.

Aside from objections that may be raised against the naïveté and theoretical deficiencies of such an approach to social thought and ideology in general,<sup>1</sup> certain specific objections may be raised against such an approach to Wilson, particularly should the main ideological components generally attributed to Wilson's mentality be granted at the outset, and their implications accorded a modicum of examination.

First, the "Puritan ethic," to which students of Wilson have attached fundamental importance as basic to his mentality, made no such mutually exclusive distinction between a transcendent morality and the world of political economy. Puritanism embraced a morality applicable not merely to the world beyond, but as well to the living individual and existing society; it sanctioned, indeed posited, capitalist social and economic relations. The affirmation of capitalist society was therefore implicit in Wilson's Protestant morality. From the straightest-laced New England Puritan of the seventeenth century to Poor Richard's Benjamin Franklin, to Gospel-of-Wealth Andrew Carnegie, to "New Freedom" Woodrow Wilson, religious conviction and "marketplace materialism" were each practical, each the uplifting agent of civilization and Providence, each the

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<sup>1</sup> See Karl Mannheim, *Ideology and Utopia* (New York: Harvest Book edition, 1955), pp. 59-70. Mannheim here distinguishes between the "particular conception of ideology" and the "total conception of ideology"; it is in terms of the latter that Wilson's world view is comprehended in this essay.

necessary condition for personal salvation and general human improvement, each a function of the other, mutually interdependent and interwoven like the white and purple threads of the single holy cloth. To the extent, then, that Puritanism entered significantly into Wilson's world view, the affirmation of the capitalist system in the United States (and throughout the world) was a function of his morality, not merely an auxiliary prepossession.

Second, Wilson's moral affirmation of capitalism sanctioned by Puritan conceptions found powerful confirmation in the economic writings of Adam Smith (himself a professor of moral philosophy), John Bright, and Richard Cobden; as student and professor he had become firmly grounded in their theories of political economy, which he admired and enthusiastically espoused, and it is not difficult to perceive that such writings would strongly appeal to one reared on Puritanism. In Smith, Bright, and Cobden, Wilson found secular moral sanction for the bourgeois-democratic political economy as well as indefeasible economic principles. Private, competitive enterprise manifested natural law in the realm of political economy, and went hand in hand with republican institutions, comprising together the essential conditions of democracy, individual liberty, and increasing prosperity. To Wilson, much of whose economic thinking was based upon the assumption of the growing superiority of United States industry, the arguments of Smith, Cobden, and Bright were compelling: they, in their day, spoke for an industrially supreme Great Britain, and recognizing Britain's position, argued that the optimum condition for the nation's economic growth and expansion rested upon the "natural" flow of trade, a "natural" international division of labor, uninhibited by "artificial" hindrances.

Taken together, Puritanism and Smithian-Manchestrian economics instilled Wilson with the compulsion to serve the strengthening and extending of the politico-economic system he knew in the United States as a positively moral-

istic commitment, since that would strengthen and extend the sphere of liberty, democracy, prosperity, and Providence, and accorded with natural law. As William Diamond observed, such assumptions were to become "basic" to Wilson's "thought on foreign policy."<sup>2</sup>

Third and finally, the organismic view of society that Wilson derived from Edmund Burke and Walter Bagehot provided him with the concept that whatever social phenomena or social system evolved "naturally" from the traditions and customs of the past, from the working of natural law through "irresistible" social forces, were not only inevitable as prescriptively ordained but morally indisputable. They represented both the evolution of the genius of human custom and institutions and the assertion of God's will in human affairs. To Burke, whom Wilson revered and assiduously studied, the market economy manifested the working of natural law, which in turn manifested divine law. In Burke, Wilson could find a reverence for the market economy akin to religious awe:

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<sup>2</sup> William Diamond, *The Economic Thought of Woodrow Wilson* (Baltimore: Johns Hopkins Press, 1943), p. 29. As revealed in his life, speeches, and writings, Wilson's concern was to protect the private enterprise system, as beneficent in itself and in its effects, from those dishonest, unscrupulous men who threatened to misuse and pervert it (and from socialists who threatened to abolish it). It was in keeping with his intense commitment to his moral principles that Wilson, early and late in his life, viewed an activist political career as his "heart's first—primary—ambition and purpose," as opposed to pure academic pursuits. Wilson to Ellen Axson, February, 1885, cited in Arthur S. Link, *Wilson: The Road to the White House* (Princeton: Princeton University Press, 1947), p. 19 (hereafter cited as Link, *Wilson*, 1). Emphasis in original, cf. *ibid.*, pp. 20, 23, 97, 123, 130; and Ray S. Baker, *Woodrow Wilson, Life and Letters* (8 vols., New York, various dates), Vol. I, p. 229, Vol. II, p. 98. It was therefore only natural that in the 1880s and 1890s and thereafter, far from being a head-in-the-clouds "idealist," Wilson made himself intimately conversant with the concrete political and economic issues of the day.



“the laws of commerce . . . are the laws of nature, and consequently the laws of God,” Burke had said.<sup>3</sup> American Puritan doctrine, as developed by Jonathan Edwards, had itself become firmly anchored in the natural law of Newton and Locke; it required the intensive study of society’s concrete development and condition, in order to comprehend God’s work in the universe. In this respect, Puritanism and Burke stood on common ground. Here both religious and secular morality converged upon the affirmation of things as they were and as they appeared to be evolving. What was “natural” was moral. The part of wisdom, morality, and statesmanship was to comprehend, affirm, and work for the necessary institutional adjustments to, “natural” evolution and “the well-known laws of value and exchange.”<sup>4</sup> This evolutionary-positivist or conservative-historicist<sup>5</sup> approach to society served to modify whatever predilections Wilson may have had for atomized economic relations; it provided him with philosophical ground for rejecting the doctrine of unrestricted competition, as did the institutional economists he encountered at Johns Hopkins in the 1880s, and for affirming, as an inevitable result of the laws of commerce and natural social evolution, the demise of the freely competing entrepreneur at the hands of the large corporation. As Wilson once remarked, explaining his approval of large-scale industrial corporations, “. . . No man indicts natural his-

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<sup>3</sup> Burke, *Thoughts and Details on Scarcity* (World Classics edition), Vol. VI, pp. 22, also 6, 9, 10.

<sup>4</sup> See, e.g., Wilson, “The Making of the Nation,” *Atlantic Monthly*, LXXX (July, 1897), in Ray S. Baker and William E. Dodd, eds., *The Public Papers of Woodrow Wilson* (4 vols., New York: Harper & Bros., 1925, 1926), Vol. I, p. 328 (hereafter cited as *PPWW*); and “Democracy and Efficiency,” *Atlantic Monthly*, LXXXVII (March, 1901), *ibid.*, p. 400.

<sup>5</sup> The term conservative-historicist is used in the technical sense defined by Mannheim, *op. cit.*, pp. 120, 121, and is not meant here to denote “conservatism” as against “liberalism” as those terms are conventionally used.

tory. No man undertakes to say that the things that have happened by operation of irresistible forces are immoral things. . . ."<sup>6</sup>

To the extent that the characterization of Wilson's mentality as "moralistic" connotes Sunday school platitudes or Pollyanna ingenuousness, therefore, it is not only irrelevant, but fundamentally misleading. Since Wilson's writings, speeches, policy decisions, and actions simply do not correspond with such "moralism" the tendency of those who view his mentality in this manner is to judge both Wilson's utterances and actions, and the great events with which he was concerned, either in terms of a Faustian personality torn between the forces of high idealism and gross materialism, or less charitably, in terms of a sophisticated hypocrisy: ". . . Beneath the layer of Christian moralism is the shrewdness of the Puritan merchant. . . ."<sup>7</sup>

But Wilson's moralism was not simply a veneer "beneath" which lurked supposedly amoral "commercialism." It was a genuine and basic component of his ideological framework, though, it is submitted, no more so than in that of William Howard Taft, Philander C. Knox, Theodore Roosevelt, or Huntington Wilson. Woodrow Wilson's "wrung heart and wet hanky," we may be sure, were "real enough."<sup>8</sup> His thought in matters of political economy embraced a body of moralist concepts, just as his moralism presumed certain principles of political economy and cor-

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<sup>6</sup> "Richmond Address," delivered before the General Assembly of Virginia and the City Council of Richmond (February 1, 1912), *PPWW*, Vol. II, p. 377.

<sup>7</sup> Richard W. Van Alstyne, "American Nationalism and Its Mythology," *Queens Quarterly*, LXV, 3 (Autumn, 1958), p. 436.

<sup>8</sup> For this reference to Wilson by D. H. Lawrence, see his *Studies in Classic American Literature* (1922; New York: Anchor edition, 1951), pp. 32-33, which contains a valuable insight into the morality shared by Wilson in the chapters on Benjamin Franklin and Hector St. John de Crevecoeur, pp. 19-43.

responding social relations. Whether or not in human thought and ideology the two have often failed to be inextricably interrelated, in Wilson they certainly were. A view of ideology that casts morality and ethics into one realm and political economy into another, that sees history as a struggle between the "ethical" men and the "materialistic" men, between the lofty and the commercialistic, suffers from an inverted economic determinism that overlooks the possibility that commitment to an economic way of life may go hand in hand with the most intense and highly systematized morality; with respect to Wilson, it forgets that just as classical political economy, "despite its worldly and wanton appearance—is a true moral science, the most moral of the sciences";<sup>9</sup> so Puritanism, as the works of R. H. Tawney and Max Weber suggest, despite its heavenly concern, is a truly worldly doctrine.

For Wilson, like Burke, ideals and principles, to the extent that they validly applied to society, arose from and satisfied, not rationally deduced abstract precepts, but practical experience with the concrete conditions of society drawn in the light of "the inviolable understandings of precedent."<sup>10</sup> "Will you never learn this fact," he lectured Boston real estate men in January, 1912, "that you do not make governments by theories? You accommodate theories to the circumstances. Theories are generalizations from the facts. The facts do not spring out of theories . . . but the facts break in and ignore theories . . . and as our life is, as our thought is, so will our Government be."<sup>11</sup> Accordingly, Wilson insisted upon the necessity of adjusting legal institutions to the changed circumstances of economics and politics:

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<sup>9</sup> Karl Marx, *Economic and Philosophic Manuscripts of 1844* (Moscow: Foreign Languages Publishing House, n.d.), p. 119.

<sup>10</sup> "The Ideals of America," *Atlantic Monthly*, XC (December, 1902), *PPWW*, Vol. I, p. 422; Baker, *Wilson, Life and Letters*, Vol. II, p. 104.

<sup>11</sup> "Efficiency" (January 27, 1912), *PPWW*, Vol. II, p. 361.

. . . if you do not adjust your laws to the facts, so much the worse for the laws, not for the facts, because law trails after the facts . . . we must [adjust the laws to the facts]; there is no choice . . . because the law, unless I have studied amiss, is the expression of the facts in legal relationships. Laws have never altered the facts; laws have always necessarily expressed the facts; adjusted interests as they have arisen and have changed toward one another.<sup>12</sup>

It was the necessity, the "facts," which Wilson recognized that determined his world view.

Time and again Wilson emphasized that the facts of modern life to which adjustment was most urgent were economic in character. Indeed, Wilson viewed economic relations as basic to all other social relations. He analyzed conditions in the United States, its troubles and opportunities, as essentially the result of rapid industrialization aggravated by the passing of the continental frontier. He conceived the major issues of his time as "questions of economic policy chiefly," and defined in this manner not

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<sup>12</sup> *The New Freedom* (New York, 1914), pp. 33, 34, 35; "Richmond Address" (February 1, 1912), *PPWW*, Vol. II, p. 376. For an interesting comparison worth noting here, see Karl Marx, *The Poverty of Philosophy* (1847): "Indeed, an utter ignorance of history is necessary in order not to know that at all times sovereign rulers have had to submit to economic conditions and have never been able to dictate laws to them. Both political and civil legislation do no more than recognize and protocol the will of economic conditions. . . . Law is nothing but the recognition of fact." Translation is that found in Franz Mehring, *Karl Marx, the Story of His Life* (London, 1951), p. 123. (Cf. *The Poverty of Philosophy* [Moscow: Foreign Languages Publishing House, n.d.], p. 83). For a present-day view that regards law as subordinate to economic fact, specifically with respect to the rise of the corporation as the predominant form of business organization, cf. Edward S. Mason, ed., *The Corporation in Modern Society* (Cambridge, Mass.: Harvard University Press, 1959), p. 1, where Mason, in his Introduction, states: ". . . law in a major manifestation is simply a device for facilitating and registering the obvious and the inevitable. . . ."

only the tariff, coinage and currency, trust, and immigration questions, but also, significantly, "foreign policy" and "our duty to our neighbors."<sup>13</sup> The life of the nation, he declared in 1911, was not what it was twenty, even ten, years before: economic conditions had changed "from top to bottom," and with them "the organization of our life."<sup>14</sup> As New Jersey governor-elect Wilson noted: "the world of business [has changed], and therefore the world of society and the world of politics. . . . A new economic society has sprung up, and we must effect a new set of adjustments. . . ." And as candidate for the Democratic presidential nomination in 1912, he declared: ". . . business underlies every part of our lives; the foundation of our lives, of our spiritual lives included, is economic." Business, he emphasized, "is the foundation of every other relationship, particularly of the political relationship. . . ." <sup>15</sup>

Wilson's view of economic relations as basic to social, political, and spiritual life, fits altogether consistently into his conservative-historicist, natural law approach to society. Understood in these terms, Wilson's "idealism" arose, therefore, from his conception of practical experience, of "natural" social evolution, of the genius of evolved social institutions, custom, habit, and traditions, of "irresistible" social forces, and the laws of commerce. It was that

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<sup>13</sup> "Leaderless Government," address before Virginia State Bar Association (August 4, 1897), *PPWW*, Vol. I, p. 354.

<sup>14</sup> "Issues of Freedom," address at banquet of Knife and Fork Club of Kansas City, Missouri (May 5, 1911), *PPWW*, Vol. II, p. 285; *The New Freedom*, p. 3.

<sup>15</sup> Inaugural Address as governor-elect of New Jersey (January 17, 1911), *PPWW*, Vol. II, p. 273; "Government in Relation to Business," address at Annual Banquet of the Economic Club, New York (May 23, 1912), *ibid.*, pp. 431, 432. In 1898, Wilson had observed: "For whatever we say of other motives, we must never forget that in the main the ordinary conduct of man is determined by economic motives." Quoted in Diamond, *op. cit.*, p. 52n.

mixture of classical nineteenth-century liberalism with conservative-historicism that made Wilson the Progressive he was: rational adjustments, determined by enlightened men concerned with the general welfare, were to be made to irrational processes, that is, to processes not determined by men but evolving irresistibly in accordance with suprahuman natural law or predetermination.

Wilson's position on the "trust" question cannot be accurately understood apart from his firm conviction that law must correspond with the facts of economic life, must accommodate the people, their habits and institutions to, *and facilitate*, natural economic development, and in the process achieve the general welfare or national interest.

He defined the general welfare or national interest not in terms of abstract reasoning or visionary dreams, or from "pure" moral principles, but historically in terms of the "facts" of the existing economic structure and business organization. To Wilson, the "facts" were that the large corporation and large-scale industry had replaced the individual entrepreneur and small producing unit as the central and dominant feature of modern capitalism. Accordingly, the adjustments to be made, in Wilson's mind, involved not an attempt to restore the entrepreneurial competition of bygone days or the dissolution of large corporations, but, on the contrary, "the task of translating law and morals into terms of modern business. . . ." <sup>16</sup> More precisely, the problem to be defined was that ". . . Our laws are still meant for business done by *individuals*; they have not been satisfactorily adjusted to business done by great *combinations*, and we have got to adjust them . . . there is no choice." <sup>17</sup> What was needed were "open efforts to accommodate law to the material development which has so strengthened the country in all that it has undertaken by

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<sup>16</sup> "Politics (1857-1907)," *Atlantic Monthly*, C (November, 1907), *PPWW*, Vol. II, p. 19.

<sup>17</sup> "Richmond Address" (February 1, 1912), *ibid.*, p. 376.

supplying its extraordinary life with necessary physical foundations.”<sup>18</sup>

Usually overlooked in discussions about the great “anti-trust” debates of the pre-World War I period is that the leading participants were concerned not so much with the abstract idea of “competition versus monopoly” as with the role of the corporation in the new industrial order and its relation to the state. This was as true of Wilson as it was of Roosevelt, Taft, George W. Perkins, Elbert H. Gary, and Herbert Croly. In his writings and speeches on the “trusts,” Wilson placed particular emphasis upon “the extraordinary development of corporate organization and administration,”<sup>19</sup> as the dominant mode of modern capitalist enterprise, upon the corresponding decline of unrestricted competition and the growth of “cooperation,” and furthermore, of particular importance, consistent with his overall view, upon the legitimacy of the process, the need to affirm and adjust to it. Large corporations were “indispensable to modern business enterprise”; “the combinations necessarily effected for the transaction of modern business”; “society’s present means of effective life in the field of industry” and its “new way of massing its resources and its power of enterprise”; “organizations of a perfectly intelligible sort which the law has licensed for the convenience of extensive business,” neither “hobgoblins” nor “unholy inventions of rascally rich men.”<sup>20</sup>

As institutions that had developed “by operation of irresistible forces,” large corporations could not be considered

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<sup>18</sup> *The New Freedom*, pp. 117–118.

<sup>19</sup> “The Lawyer and the Community,” annual address delivered before the American Bar Association, Chattanooga (August 31, 1910), *PPWW*, Vol. II, p. 253.

<sup>20</sup> *Ibid.*, pp. 254–257, 262: “Bankers and Statesmanship,” address before the New Jersey Bankers’ Association, Atlantic City (May 6, 1910), *ibid.*, p. 229; *The New Freedom*, p. 5; Inaugural Address as governor-elect of New Jersey (January 17, 1911), *PPWW*, Vol. II, p. 271.

“immoral”; “. . . to suggest that the things that have happened to us must be reversed, and the scroll of time rolled back on itself,” Wilson declared in 1912, “. . . would be futile and ridiculous. . . .”<sup>21</sup> On more than one occasion during the campaign of 1912, as he had in the past, Wilson declared:

I am not one of those who think that competition can be established by law against the drift of a worldwide economic tendency; neither am I one of those who believe that business done upon a great scale by a single organization—call it corporation, or what you will—is necessarily dangerous to the liberties, even the economic liberties, of a great people like our own . . . I am not afraid of anything that is normal. I dare say we shall never return to the old order of individual competition, and that the organization of business upon a great scale of cooperation is, up to a certain point, itself normal and inevitable.<sup>22</sup>

Or, as he put it on another occasion, “. . . nobody can fail to see that modern business is going to be done by corporations . . . We will do business henceforth when we do it on a great and successful scale, by means of corporations. . . .”<sup>23</sup>

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<sup>21</sup> “Richmond Address,” *ibid.*, pp. 376–377.

<sup>22</sup> Address accepting Democratic party presidential nomination, August 7, 1912, *Official Report of the Proceedings of the Democratic National Convention, 1912*, p. 407. The “certain point” referred to by Wilson was the point of diminishing returns. The enterprise that made money in the market without recourse to coercive or “artificial” practices was normal, its size justified by its pecuniary success.

<sup>23</sup> “The Tariff and the Trusts,” address at Nashville, Tenn. (February 24, 1912), *PPWW*, Vol. II, pp. 410–411. In this connection, more than a decade before Theodore Roosevelt denounced the “rural Tories” as reactionaries whose passion for unrestricted competition and small business units would turn back the clock of progress, Wilson, in December, 1900, had applied the same criticism to Populists and Bryan-Democrats:



With respect to remedies in the matter of "trusts," the task according to Wilson was "not to disintegrate what we have been at such pains to piece together in the organization of modern industrial enterprise"; a program of dissolution of the large corporations would only calamitously derange the economy; it would "throw great undertakings out of gear"; it would "disorganize some important business altogether."<sup>24</sup> Rather, the task was to prevent the misuse of corporations by individuals, make guilt and punishment individual rather than corporate, prescribe in law those practices corporations might and might not undertake, prohibit unfair and coercive methods of competition, require reasonable competition among the large corporations, and assure that corporations operate in the public interest.<sup>25</sup>

Historians have argued over when it was that Wilson first declared in favor of commission regulation of business, as if this were of fundamental importance to his overall view of the trust question.<sup>26</sup> To Wilson, however, the question of commission regulation did not involve that

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". . . Most of our reformers are retro-reformers. They want to hale us back to an old chrysalis which we have broken; they want us to resume a shape which we have outgrown. . . ." "The Puritan," speech before the New England Society of New York City (December 22, 1900), *ibid.*, Vol. I, p. 365.

<sup>24</sup> "The Lawyer and the Community" (August 31, 1910), *ibid.*, Vol. II, p. 254.

<sup>25</sup> ". . . You cannot establish competition by law, but you can take away the obstacles by law that stand in the way of competition, and while we may despair of setting up competition among individual persons there is good ground for setting up competition between these great combinations, and after we have got them competing with one another they will come to their senses in so many respects that we can afterwards hold conference with them without losing our self-respect." Wilson, Jackson Day Dinner Address (January 8, 1912), *ibid.*, p. 348.

<sup>26</sup> See, e.g., John W. Davidson, ed., *A Crossroads of Freedom: The 1912 Campaign Speeches of Woodrow Wilson* (New Haven: Yale University Press, 1956), p. 80.

of laissez-faire versus "positive" government, or regulation of monopoly versus enforcement of competition. It involved instead, the question of whether the ground rules of the new corporate system were to be left to arbitrary decisions of executive officers, subject to change with each administration, and possibly productive of both interference with personal and property rights and irrational attacks upon corporations, or whether, as he advocated, they were to become institutionalized in law. As had the corporate leaders themselves who testified before congressional committees, what Wilson wanted was "the certainty of law." Within that context, he favored "as much power as you choose."<sup>27</sup>

Whether one examines Wilson's thought before or during his "New Freedom" years, it is evident that what is thought of as laissez-faire Jeffersonianism is not one of its characteristics. In 1908, for example, pointing to "the necessity for a firm and comprehensive regulation of business operations in the interest of fair dealing," Wilson stated: ". . . No one now advocates the old *laissez-faire* . . ."<sup>28</sup> As if to emphasize his conviction that the popular

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<sup>27</sup> "The Vision of the Democratic Party," New Haven Address (September 25, 1912), *ibid.*, pp. 264-265. Davidson points out (see fn. 26 above) that Wilson declared for commission regulation at his Buffalo speech of September 2, 1912, at least three weeks prior to the New Haven address, but the point Wilson made on these occasions was in no essential respect different from that which he made more than four years earlier, when insisting "everywhere upon definition, uniform, exact, enforceable," he stated (in criticism of the pending Hepburn amendments to the Sherman Act), ". . . If there must be commissions, let them be, not executive instrumentalities having indefinite powers capable of domineering as well as regulating, but tribunals of easy and uniform process acting under precise terms of power in the enforcement of precise terms of regulation." "Law or Personal Power," address delivered to the National Democratic Club, New York (April 13, 1908), *PPWW*, Vol. II, p. 28.

<sup>28</sup> *Ibid.*, p. 25.

notion of Jeffersonianism bore little direct relevance to the problems of modern times, Wilson took the occasion of the Democratic party's Jefferson Day Banquet in 1912 to assert: ". . . We live in a new and strange age and reckon with new affairs alike in economics and politics of which Jefferson knew nothing."<sup>29</sup> With respect to the government's role in particular, as William Diamond summarized the record: ". . . Throughout his political life . . . [Wilson] was willing to use the government as a positive instrument in the economic life of the nation. . . ."<sup>30</sup>

In two most basic areas of policy and thought, then, that of the extent of government intervention in the economy and that of the "trust" question, Wilson was no more a "Jeffersonian" than were Theodore Roosevelt, Edward D. White, Oliver Wendell Holmes, George W. Perkins, or Herbert Croly. If "Jeffersonian" is meant to connote a return to an agrarian yeoman republic, or to the regime of unrestricted competition among independent entrepreneurs or small business units, or a government policy of *laissez-faire*, then much as it obscures more than clarifies in applying the term to any leading twentieth-century figure in United States history, it certainly fails even allegorically to characterize, or provide much insight into, Wilson's thought or policy positions.

Accordingly, Wilson's New Freedom years, 1912-14, may be more accurately comprehended not as a break with his past, just as his decision to make commission regulation the core of his trust program may be better understood not as a break with his New Freedom views. Before, during, and after 1914, Wilson's views on the trust question, like those of large corporate spokesmen within the Chicago Association of Commerce, National Civic Federation, and the United States Chamber of Commerce, and like those of

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<sup>29</sup> "What Jefferson Would Do," *ibid.*, p. 424.

<sup>30</sup> Diamond, *Economic Thought of Wilson*, p. 130.

Roosevelt and Bureau of Corporations chiefs James R. Garfield and Herbert K. Smith, embodied the common law—"rule of reason" doctrine ultimately handed down by the Supreme Court in its American Tobacco and Standard Oil decisions of 1911. Like the others, Wilson had opposed the Court's earlier decisions prohibiting both "reasonable" and "unreasonable" restraints of trade; like them his approach affirmed large-scale corporate organization, sought the institutional legitimization of reasonable restraints of trade and the prohibition of unreasonable restraints or "unfair" competition, as determined at common law and by judicial precedent, with the public interest as the central consideration.

Wilson's position on the trust question as of 1912-14 may be looked upon as a synthesis of the positions of Taft and Roosevelt: on the one hand, acknowledgment of the demise of *individualistic, entrepreneurial* competition, but the affirmation of and insistence upon reasonable *inter-corporate* competition; on the other hand, the prevention of "unfair competition" and affirmation of "reasonable" combination and intercorporate arrangements consistent with the "public interest" or "general welfare," under a government regulatory policy rooted in the settled precedents and practices of common and civil law jurisprudence, whether enforced by the courts or by an administrative commission or by a combination of both.

To cite the fact that Louis D. Brandeis exerted decisive influence in Wilson's acceptance of the trade commission bill as evidence of a basic alteration in Wilson's views on the trust question, is either to overlook Brandeis' public utterances at the time and the program he advocated, or to disregard Wilson's previous writings and statements. Brandeis' position avowedly embodied the Supreme Court's "rule of reason" decisions of 1911; he advocated "reasonable" restraints of trade (including limitations upon competition by trade associations) and the prohibition of

“unfair practices.”<sup>31</sup> The issue involved in Wilson’s abandoning the Clayton bill was primarily the impracticality of specifying every unfair practice to be proscribed, and the severity with which, in its original form, it threatened to interfere with corporate practices. The “rule of reason” decision, on the other hand, provided the general term, “unfair competition,” with a recognized meaning at common law as evolved over the past decades in court decisions. And after its establishment, when the Federal Trade Commission sought to define “unfair methods of competition,” it began by cataloguing all practices that had been found by the courts to be unreasonable or unfair at common law.<sup>32</sup> The trade commission act, although not providing full certainty of law, as Wilson had wished, satisfied the basic elements of his position in removing regulatory powers from the arbitrary decisions of commissioners and grounding them in judicial precedent.

It should also be noted, within the context of the community of agreement on the trust question between Wilson and large corporate spokesmen, that the circumstances surrounding the writing of the bill bear no anomaly. As Arthur S. Link showed, Brandeis and George L. Rublee worked closely together and in consultation with Wilson in drafting the legislation; Rublee actually wrote

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<sup>31</sup> See, e.g., Brandeis’ testimony before House Committee on the Judiciary, *Trust Legislation* (Ser. No. 2)—*Patent Legislation* (Ser. No. 1), *Hearings on H. R. 11380, H. R. 11381, H. R. 15926, and H. R. 19959*, January 26, 27, and February 19, 1912, 62nd Cong., 2nd sess. (Washington, D.C., 1912), pp. 13–54 (Brandeis testified on January 26, 1912); and Brandeis, “The Solution of the Trust Problem,” *Harper’s Weekly*, LVIII, No. 2968 (November 8, 1913), pp. 18–19.

<sup>32</sup> *Memorandum on Unfair Competition at the Common Law* (printed for office use only by the Federal Trade Commission, 1915), cited and discussed in Thomas C. Blaisdell, Jr., *The Federal Trade Commission* (New York: Columbia University Press, 1932), pp. 21–23.

the bill.<sup>33</sup> Generally unknown, however, is that at the time Rublee worked in Washington writing the measure, he was serving as a member of a special committee on trade commission legislation of the United States Chamber of Commerce. (Brandeis had been an initial member of the Chamber's committee, but retired in favor of Rublee under the press of other affairs.)<sup>34</sup>

But all this is not to imply that Wilson "sold out," that he was obliged reluctantly to submit to "implacable" forces, or that his views or policies had undergone any basic change. Rather, it is to suggest that, viewed within the context of Wilson's overall thought and programmatic approach, the New Freedom years are not best understood as a distinctive period in his intellectual or political life, nor as "anti-big business" in nature or intent,

This view may be all the more forcefully substantiated if the interrelationship between the New Freedom legislation of 1913/14 and promotion of United States economic expansion abroad is appreciated. Here again, it may be seen that, consistent with Wilson's previous and subsequent views, the New Freedom was not directed against large corporate developments at home or abroad.<sup>35</sup>

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<sup>33</sup> Link, *Wilson: The New Freedom* (Princeton: Princeton University Press, 1956), pp. 436-438, 441 (hereafter cited as Link, *Wilson*, II). See also, George Rublee, "The Original Plan and Early History of the Federal Trade Commission," *Proceedings of the Academy of Political Science*, XI, 4 (January, 1926), pp. 114-120.

<sup>34</sup> Senate Committee on Interstate Commerce, "Promotion of Export Trade," *Hearings on H. R. 17350*, 64th Cong., 2nd sess., January, 1917 (Washington, D. C., 1917), pp. 10-12.

<sup>35</sup> For a characteristic formulation of the conventional interpretation of the "New Freedom," particularly with respect to foreign relations, see Charles A. Beard, *The Idea of National Interest* (New York: Macmillan, 1934), pp. 121, 122, 464. In this valuable theoretical work designed to demonstrate that United States foreign policy has historically been based not upon abstract ideals, but upon the pursuit of national interest as defined by the realities of political economy, Beard felt obliged

That prior to 1912/14 Wilson had been a firm advocate of United States economic expansion abroad is a matter of record upon which there is general agreement by historians. His views in this respect have been sufficiently observed and analyzed elsewhere.<sup>36</sup> The main elements of his thought may be briefly summarized here. As an early adherent of Turner's frontier thesis, Wilson defined the nation's natural political-economic development and its prosperity as a function of westward expansion. With the end of the continental frontier, expansion into world markets with the nation's surplus manufactured goods and capital was, in his view, indispensable to the stability and prosperity of the economy. It was also no more than a natural development in the life of any industrial nation, and, to him, in no way morally invidious, since, in his view, the nation's economic expansion was a civilizing force that carried with it principles of democracy and Christianity as well as bonds of international understanding and peace. Given the United States' superior industrial efficiency she would assume supremacy in the world's markets, provided artificial barriers to her economic expansion were eliminated. Accordingly, Wilson admired and championed Hay's open-door policy and advocated vigor-

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to classify Wilson as an exception to the rule. According to Beard, Wilson "turned a cold shoulder" to the great economic interests that had "on the whole, supported and benefited by dollar diplomacy." "From the turn of the century," Beard explained, "the practice of giving aggressive support to the interests of American citizens abroad grew until it appeared to attain almost world-wide range and received the authority of a positive official creed in the conception of dollar diplomacy. . . . After a brief setback during the Wilson regime, the pattern was restored again with the return to power of a Republican administration in 1921. . . ." But, "in the main, the policies of President Wilson, both domestic and foreign, ran counter to corporate development and commercial expansion under the impulse of dollar diplomacy, with their accompanying interpretations of national interest. . . ."

<sup>36</sup> Diamond, *op. cit.*, pp. 131-161.

ous government diplomacy and appropriate government measures to attain the ends in view.

Within this broad framework of thought, the application of the expanding-frontier image to economic expansion abroad, assumed a significance more fundamental than the invocation of a romantic metaphor: the West had been developed by the extension of railroads, the opening of mines, the development of agriculture—in short by the extension of the sphere of enterprise and investment that resulted in the widening of the internal market and fed the growth of large-scale industry. Markets for manufactured goods were in this way actively *developed, created*, in the West, by the metropolitan industrial and finance capitalists, and not without the significant aid of the federal government. Similarly with such markets abroad: foreign investments and industrial exports were seen by the corporate interests most heavily involved and by like-minded political leaders, such as Wilson, as going hand in hand, centered as their concern was on the needs of an industrial capitalist system in general and heavy industry in particular. Accordingly, the idea of “development” of agrarian areas in other parts of the world, and “release of energies,” is prominent in Wilson’s approach to economic expansion abroad.

Wilson’s emphasis on exports of manufactures, his belief in their indispensability to the nation’s prosperity, and his conception that the government should play a leading role in these matters, coincide in every essential respect with the views of the so-called Dollar Diplomats, and of large corporate spokesmen within the United States Chamber of Commerce, the American Asiatic Association, the Pan-American Society, the American Manufacturers Export Association, and the National Foreign Trade Council. In like manner his advocacy of appropriate government measures to encourage an effective merchant marine and adequate international banking facilities flowed from this common concern for expanding the economic frontier; and his support of a low tariff was in large part informed by his



belief that it was necessary to the nation's assumption of its proper role in world economic affairs.

But these were not merely the views of a supposedly "early" Wilson, later to be abandoned by the New Freedom Wilson; on the contrary, he carried them most emphatically, along with programmatic proposals, into his presidential campaign of 1912. Wilson's consistent theme, in this respect, during his bid for the presidency, is summarized in his address accepting the Democratic Party's presidential nomination: ". . . Our industries have expanded to such a point that they will burst their jackets if they cannot find a free outlet to the markets of the world . . . Our domestic markets no longer suffice. We need foreign markets. . . ." The alternative, as he had previously put it, was "a congestion that will operate calamitously upon the economic conditions of the country." The economic imperatives, therefore, required institutional adjustments on the governmental and private business levels to break an outmoded "chrysalis," in order to "relieve the plethora," and "use the energy of the [nation's] capital." They also pointed to "America's economic supremacy" (a phrase that Wilson shared with Brooks Adams): ". . . if we are not going to stifle economically, we have got to find our way out into the great international exchanges of the world"; the nation's "irresistible energy . . . has got to be released for the commercial conquest of the world," for "making ourselves supreme in the world from an economic point of view." He stressed three major reforms to meet the new necessities of the time—the downward revision of the tariff, the development of a strong merchant marine ("The nation that wants foreign commerce must have the arms of commerce"), and laws permitting foreign branch banking tied to a commercial-acceptance system (" . . . this absolutely essential function of international trade . . .").<sup>37</sup>

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<sup>37</sup> See in particular his speeches, "Efficiency" (January 27, 1912), *PPWW*, Vol. II, pp. 357–360, 372–375, 380; "The

Wilson's concern for the promotion of foreign trade and investment found expression in some of his key appointments upon assuming the presidency. To China, for example, he sent Paul S. Reinsch, long a prominent spokesman for economic expansion abroad. He appointed his intimate friend, Walter H. Page, as ambassador to Great Britain; as editor of *World's Work*, Page had published series of articles on such topics as "the industrial conquest of the world," to which Reinsch contributed.<sup>38</sup> Wilson's appointments of Edward N. Hurley and George L. Rublee to the newly formed Federal Trade Commission proved decisive, in its first few years, in making it a leading agency of foreign trade promotion, an aspect of its activities that was not then widely anticipated nor since been sufficiently appreciated.<sup>39</sup>

Wilson appointed William C. Redfield to head the Department of Commerce, which, with its Bureau of Foreign and Domestic Commerce, shared with the State Department the central responsibility within the federal govern-

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Tariff and the Trusts" (February 24, 1912), *ibid.*, pp. 407-409; and "Speech of Acceptance" (August 7, 1912), *ibid.*, pp. 471-472.

<sup>38</sup> See, e.g., Walter H. Page to Paul S. Reinsch, August 13, November 15, December 10, December 28, 1900, in *Paul S. Reinsch Papers, Correspondence, 1892-1908*. Collection owned by the State Historical Society of Wisconsin (Madison).

<sup>39</sup> As a member of the Chamber of Commerce's special committee on trade commission legislation, Rublee played a leading role in the Chamber's campaign to authorize the Commission to investigate world trade conditions and make appropriate recommendations to Congress. Hurley was a prominent Illinois industrialist who had introduced the pneumatic tool industry to the United States, had been an active member and president of the Illinois Manufacturers Association, and, as an articulate advocate of economic expansion abroad, had played a leading role in the organization of the National Foreign Trade Council. In 1913 he toured Latin America as an official trade commissioner for Wilson's Department of Commerce to investigate market and investment opportunities for United States industry and finance.

ment for promoting foreign economic expansion. It is a mistake to dismiss Redfield, as Link does with the remark that "perhaps his chief claim to fame was the fact that he was the last man in American public life to wear side whiskers. . . ." <sup>40</sup> For Redfield was a prominent member of the corporate community, enjoying the respect and confidence of corporate leaders. As a New York manufacturer of iron and steel products he spent many years abroad developing markets, and as a "business statesman" much of his time expounding the theme of expansion and downward revision of the tariff. Like Wilson he had been a gold-Democrat, and the views of the two men were strikingly similar in matters of trade expansion and the tariff. Indeed, Wilson, in January, 1912, acknowledged that "I primed myself on Mr. Redfield's [tariff] speeches." <sup>41</sup> Of greater significance, indicating Redfield's prominence in the corporate community and the degree to which he represented corporate opinion, Redfield had been president of the American Manufacturers Export Association (organized in 1910), which, to use Robert A. Brady's terminology, was a peak association of large corporate interests. As Secretary of Commerce, with Wilson's support and approval, he immediately undertook to reorganize the Bureau of Foreign and Domestic Commerce for more efficient service in promoting foreign trade, and submitted a bill to

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<sup>40</sup> Link, *Wilson*, II, p. 139. It might also be noted that Link errs in stating (*Woodrow Wilson and the Progressive Era, 1910-1917* [New York: Harper & Bros., 1954], p. 74) that Rublee was prevented from serving on the Federal Trade Commission due to the Senate's refusal to confirm his nomination in deference to Senator Jacob H. Gallinger (R., N.H.), who declared Rublee "personally obnoxious." Actually, Rublee served, under a recess appointment by Wilson, for about eighteen months, from March 16, 1915, to September 8, 1916, before he was obliged to retire. See *Federal Trade Commission Decisions* (March 16, 1915, to June 30, 1919), Washington D.C., 1920, Vol. I, p. 4; and Rublee, *op. cit.*, p. 120.

<sup>41</sup> "The Tariff" (January 3, 1912), *PPWW*, Vol. II, p. 330.

Congress for the creation of a system of commercial attachés and agents, and trade commissioners, which Congress passed in 1914. Between the two of them, Redfield and Hurley, again with Wilson's approval, instituted many of the mechanisms of business-government cooperation in domestic and foreign trade, including the encouragement of trade associations, that are usually regarded as initially introduced by Herbert Hoover when he was Secretary of Commerce during the 1920s. Finally, it is important to note that although Wilson permitted Secretary of State William Jennings Bryan to make many ambassadorial appointments on the basis of patronage obligations, he refused to permit Bryan to disturb the consular service.

Against this background, the attitude of corporation leaders toward the three major pieces of New Freedom legislation of 1913/14 (Underwood Tariff, Federal Reserve, and Federal Trade Commission acts), as well as the extent to which that legislation affected foreign trade expansion and to which, in turn, the nature of the legislation was determined by considerations relating to such expansion, may be more clearly understood.

Between 1910 and 1914, corporate leaders, particularly those connected with the large corporations and banking houses, were unusually active in organizing themselves for the promotion of their interests and programmatic objectives in domestic and foreign affairs. In 1910 industrial corporations organized the American Manufacturers Export Association (AMEA); in 1912 these corporations, along with other business organizations, such as the American Asiatic Association (AAA), established the United States Chamber of Commerce; and in 1914 the AMEA, the AAA, and the Pan-American Society joined together to form the National Foreign Trade Council (NFTC). These were all what might be called "peak associations" of large corporate interests; but the NFTC may be legitimately considered a peak association of peak associations. The officers and memberships of these associations interlocked

as intricately as did the directors of the huge industrial corporations and finance houses of the time.

Of the more significant manifestations of the Wilson Administration's concern for the promotion of foreign trade and of the community of agreement between large corporate interests and that Administration, therefore, one was its endorsement of the purposes of the first National Foreign Trade Convention, convened in Washington, D.C., May 27 and 28, 1914. The Convention, presided over by Alba B. Johnson, and the National Foreign Trade Council subsequently established, with James A. Farrell as its president, were led and dominated by men representing the nation's greatest industrial, mercantile, and financial corporations.<sup>42</sup> As Johnson related: "The Convention had its inception at a meeting in New York some time ago" with Secretary of Commerce Redfield. He gave the idea for such a convention "his most cordial approval, and, therefore, it is fair to say" that he "is in a sense the Father of this Convention. . . ."<sup>43</sup> Edward N. Hurley, the first Vice-Chairman and later Chairman of the Federal Trade Commission, also played a leading role in the organization of the Convention and in the Council's subsequent affairs.<sup>44</sup>

The Convention met in the afterglow of Secretary of State Bryan's appearance, in January, 1914, as guest of honor at the annual dinner of the American Asiatic Association, of which Willard Straight was then president.<sup>45</sup> At that time, the Underwood Tariff and Federal Reserve act, measures most closely associated with the New Freedom,

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<sup>42</sup> *Official Report of the National Foreign Trade Convention* (1914), pp. 15, 16, 457-458 (hereafter cited as NFTC, Proceedings). Johnson was himself president of the Baldwin Locomotive Works, and Farrell the president of the United States Steel Corporation.

<sup>43</sup> *Ibid.*, pp. 203-204.

<sup>44</sup> *Ibid.*, pp. 15, 17, 457.

<sup>45</sup> Straight had served as agent of the American Banking Group in China during the days of the Six-Power Consortium, was associated with the House of Morgan, and was a leading participant in the organization of the NFTC.

had been passed by Congress. The Association's expressed purpose for inviting Bryan to the dinner, which was attended by leaders of the corporate community, was to exchange views with him on, and have him clarify, the Administration's foreign policy. Emphasizing that the "era upon which we are entering is not only that of the Pacific Ocean, it must be one of Pacific development as well," Straight cited the new tariff as a stimulant for "carrying the war into the enemies' camp and competing abroad with those who will now invade our own market. . . ." And to the cheers of the diners, he observed that with the Panama Canal and the opportunity provided by the reserve act for the extension of foreign banking and investment, ". . . we are in a better position than at any time in our history aggressively to undertake the development of our export trade."<sup>46</sup> In response, Bryan pointed out that his duties as Secretary of State kept him "in touch with the expansion of American Commerce and the extension of American interests throughout the world," with which both he and the President were in "deep sympathy," and he assured the businessmen that the Administration "will see that no industrial highwayman robs you. This government stands committed to the doctrine that these United States are entitled to the greatest possible industrial and commercial development." In this respect, like Straight, he singled out the tariff and reserve act as decisive instrumentalities for giving the doctrine practical effect.<sup>47</sup>

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<sup>46</sup> The reserve act, as Straight noted, permitted "the establishment of branches of American banking institutions abroad," and with its provision for a commercial-acceptance system promised to "free vast sums for use in an international discount market and for the purchase of desirable foreign securities." *Journal of the American Asiatic Association*, XIV, 1 (February, 1914), p. 8 (hereafter cited as *AAA Jour.*).

<sup>47</sup> The reserve act, according to Bryan, as a law the nation "long needed," would stimulate foreign trade "not only in the Orient but also throughout South America"; the new tariff meant "a larger commerce between our nation and the world, and in this increase the Orient will have her share," to the ad-

The Administration's endorsement of the National Foreign Trade Convention the following May assumed tangible forms. Secretary of Commerce Redfield delivered the opening address of the Convention on the morning of May 27 and he served as toastmaster at its banquet that night; Secretary of State Bryan delivered the main after-dinner speech at the banquet; and Wilson the next day received the delegates at the White House for a short interview.

As the Council later announced, the national importance of the Convention was

attested by the fact that its purpose [to promote foreign trade and a coordinated national foreign trade policy based upon the cooperation of government and business] was cordially indorsed by the President of the United States, who received the delegates at the White House; by the Secretary of State, who delivered, at the banquet, an outline of the administration's policy toward American business abroad; and by the Secretary of Commerce, who opened the convention. . . .<sup>48</sup>

In his address to the delegates in the East Room of the White House, after having been introduced to them by Edward N. Hurley, Wilson declared his "wish to express . . . the feeling of encouragement that is given by the gathering of a body like this for such a purpose." For, he said: "There is nothing in which I am more interested than the fullest development of the trade of this country and its righteous conquest of foreign markets." Referring to Secretary Redfield's address of the previous day, Wilson confided: "I think that you will realize . . . that it is one of the things that we hold nearest to our heart that the government and you should cooperate in the most intimate manner in accomplishing our common object." He ex-

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vantage not only of the public in general, but "especially" of "those merchants and manufacturers now turning their eyes to the Far East." McKinley's advocacy of tariff reduction "as a means of extending . . . our exports," was "a prophetic utterance": we "must buy if we would sell." *Ibid.*, pp. 12-13.

<sup>48</sup> NFTC, *Proceedings* (1914), p. 8.

pressed the hope that this would be "only the first of a series of conferences of this sort with you gentlemen." In reply, Alba B. Johnson assured the President that as businessmen they realized "the deep interest which this government takes in promoting legitimate foreign trade. . . ."49

Bryan delivered two addresses at the banquet on the night of May 27, 1914, the first a short prepared statement for release to the press, the second a lengthier extemporaneous speech. In the prepared speech Bryan declared the Administration "earnestly desirous of increasing American foreign commerce and of widening the field of American enterprise. . . ." He reiterated its intention to cooperate with the business community to this end, and speaking for his own department he emphasized its "earnest purpose" to "obtain for Americans equality of opportunity in the development of the resources of foreign countries and in the markets of the world." Accordingly it was his "intention to employ every agency of the Department of State to extend and safeguard American commerce and legitimate American enterprises in foreign lands," consistent with the "sovereign rights of other governments."<sup>50</sup>

<sup>49</sup> *Ibid.*, pp. 392-393.

<sup>50</sup> *Ibid.*, pp. 206, 207. That this represented Administration policy, not merely edifying rhetoric to win the favor of corporate interests, is corroborated, *inter alia*, by the exchange of notes during the summer of 1913 between Bryan and E. T. Williams (United States Chargé d'Affaires at Peking). Williams requested instructions "as to the attitude to be taken by this Legation towards financial transactions between American capitalists and the Chinese Government," in view of President Wilson's statement of March 18, 1913, repudiating the Six-Power Consortium and the Reorganization Loan. Referring to the passages in that statement that the American people "wish to participate . . . very generously, in the opening . . . [of] the almost untouched and perhaps unrivaled resources of China," and that the United States government "is earnestly desirous of promoting the most extended and intimate trade relationship between this country and the Chinese Republic," Williams sug-



In his extemporaneous remarks, Bryan explained to the men of capital that his department's policy was Wilson's policy—what it “does in foreign affairs is but what the President desires.” This meant, he said, “policies which will

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gested as his understanding of the Administration's policy that the State Department would support “industrial” loans and investments for the development of railways and mineral resources, secured upon the assets and earnings of such enterprises, but not “financial loans” to the Chinese provincial and central governments secured upon government revenues. Bryan replied that “. . . the Legation is right in assuming that the Department is extremely interested in promoting, in every proper way, the legitimate enterprises of American citizens in China and in developing to the fullest extent the commercial relations between the two countries.” He continued: “It may be stated, in general, that this Government expects that American enterprise should have opportunity everywhere abroad to compete for contractual favors on the same footing as any foreign competitors, and this implies also equal opportunity to an American competitor to make good his ability to execute the contract. . . . [This Government] stands ready, if wrong be done toward an American citizen in his business relations with a foreign government, to use all proper effort toward securing just treatment for its citizens. *This rule applies as well to financial contracts as to industrial engagements.*” (Emphasis added). Department of State, *Papers Relating to the Foreign Relations of the United States*, 1913, pp. 183–187, 170–171. It is essential to note that the conditions outlined by Bryan in this note and in one cited by himself from Secretary of State Richard Olney to Minister Charles Denby in 1896 (*ibid.*, 1897, p. 56), delimiting the extent of government support for United States enterprise abroad (i.e., refusing special support for one United States firm to the exclusion of others, refusing to guarantee the execution of contracts or the success of an enterprise, and renouncing any commitment to intercede forcibly in the internal affairs of foreign nations on behalf of United States capitalists), were all well-established principles affirmed alike by the Dollar Diplomats (such as Taft, Knox, Wilson, Calhoun, Straight) in their public statements and diplomatic notes, and by their predecessors. These delimiting principles were in no way peculiar to the Wilson Administration, and cannot be considered as distinguishing its policy from that of Taft and Knox.

promote our industry abroad as well as at home"; already, in the short time of the Administration's existence, it had taken measures that would "tend directly and necessarily to promote commerce," such as the tariff and reserve act. But "more than that," Bryan continued, the Administration's efforts to win friends for the United States, safeguard the peace, and conclude commercial treaties constituted a broad contribution to the stabilization and extension of foreign economic expansion. "One sentence from President Wilson's Mobile speech has done a great deal to encourage commerce." When he there renounced territorial conquest as an object of United States policy in Latin America, ". . . he opened the doors of all the weaker countries to an invasion of American capital and American enterprise. (Applause.)"<sup>51</sup> As Bryan had put it at the Asiatic Asso-

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<sup>51</sup> NFTC, *Proceedings* (1914), pp. 208-210. Along with the Mobile speech, the statement repudiating the Six-Power Consortium is most often cited to substantiate the view that Wilson repudiated Dollar Diplomacy. If this is meant as a repudiation of government support of corporate interests in expanding investments and exports abroad, then as already indicated in the immediately preceding text and in footnote 50, above, neither the Mobile speech nor the consortium statement is amenable to such interpretation. Wilson's consortium statement not only emphasized the government's intention to promote United States participation in the development of China and the closest of commercial relations between the two countries, but also specifically declared: ". . . The present administration will urge and support the legislative measures necessary to give American merchants, manufacturers, contractors, and engineers the banking and other financial facilities which they now lack and without which they are at a serious disadvantage as compared with their industrial and commercial rivals. This is its duty. This is the main material interest of its citizens in the development of China. . . ." *Foreign Relations*, 1913, p. 171. Cf. the version of and references to the statement in George H. Blakeslee, ed., *Recent Developments in China* (New York: G. E. Stechert & Co., 1913), pp. 159-160; John V. A. MacMurray, ed., *Treaties and Agreements with and Concerning China, 1894-1919* (New York: Oxford, 1921), Vol. II, p. 1025;

ciation dinner: “. . . The doctrine of universal brotherhood is not sentimentalism—it is practical philosophy . . .” The government could not create trade, but it was its “duty” to “create an environment in which it can develop.”<sup>52</sup> He looked forward with “great expectations” to

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Charles Vevier, *The United States and China, 1906–1913* (New Brunswick, N.J.: Rutgers University Press, 1955), p. 210. All these versions include the reference to banking and other financial facilities needed for effective competition in Chinese markets. (These facilities were regarded as essential by corporate interests to foreign economic expansion and were provided in 1913 by sections 13, 14, and 25 of the Federal Reserve Act, which permitted branch banking abroad and the establishment of a domestic discount market for foreign trade commercial acceptances.) Unfortunately, in the widely used *Documents of American History*, edited by Henry S. Commager, the consortium statement, there entitled “The Repudiation of ‘Dollar Diplomacy,’” is entirely reproduced, except for the passage referring to the banking and other financial facilities (5th ed.; 1949, Doc. #390). For further evidence regarding the Wilson Administration’s intentions in repudiating the consortium, see Secretary of State Bryan’s address before the Asiatic Association in January, 1914, where he explained: “. . . The new administration in withdrawing approval from the Chinese loan did not question the good faith or good intent of those who had seen in it a means of increasing our influence, prestige and commercial power in China. The President believed that a different policy was more consistent with the American position, and that it would in the long run be more advantageous to our commerce. . . .” See also Willard Straight’s remark on the same occasion that though many businessmen “. . . have interpreted the announcement . . . to mean that the American Government would not extend to our bankers the support which those familiar with trade conditions in China consider necessary . . . I personally feel assured, that this impression . . . is not justified. . . .” *AAA Jour.*, XIV, 1 (February, 1914), pp. 12, 8–9; cf. editorial in *ibid.*, p. 8. The present author examines this question in greater detail in his master’s thesis.

<sup>52</sup> *AAA Jour.*, XIV, 1 (February, 1914), p. 13. Cf. Straight’s remark: “The true armies of world peace . . . are the merchants engaged in international trade. In this army, the Secretary of State is a Chief of Staff, and the Ambassador a Corps Commander. We of this [Asiatic] Association are the rank and

the extension of United States trade and investment abroad; the Convention itself provided "evidence that we are going forward," and the statistics showing the increase in exports of manufactured goods left "no doubt" that the United States could compete successfully with the European industrial nations "in the newer countries that are awaiting complete development," and that the United States would thus become "an increasing factor in the development" of such countries.<sup>53</sup>

Bryan's approach to economic expansion exemplified a unified world view, embracing "moralism" and "commercialism" as interdependent and mutually consistent elements, that was so common to the expansionists of the time; the underlying assumptions of the "Good Neighbor" policy of later administrations were not basically different; and like the policy of Wilson or Straight it emphasized not merely trade but also "development" of agrarian countries, and the government's responsibility to foster those operations.

Promising the complete support of his department for the extension of markets and investments abroad, and inviting the close cooperation between the businessmen and the State Department, Bryan told the corporate leaders: "I promise you that the State Department—every agency of it—will be back of every honest businessman in pushing legitimate enterprise in all parts of the world. (Applause.)" To emphasize the community of purpose between the State Department and the corporate interests, he continued by extending a colorful analogy:

In Spanish-speaking countries hospitality is expressed by a phrase, "My house is your house." . . . I can say,

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file. . . ." *Ibid.*, p. 8. Also, that of M. A. Oudin, manager of the Foreign department of General Electric Co., that whereas the government could not create trade, it could "point the way to private enterprise." NFTC, *Proceedings* (1914), pp. 366, 367, 379-380.

<sup>53</sup> *Ibid.*, *Proceedings* (1914), pp. 207, 208.

not merely in courtesy—but as a fact—my Department is your department; the ambassadors, the ministers and the consuls are all yours. It is their business to look after your interests and to guard your rights.

If any of them failed to fulfill his responsibility, advised Bryan: “we shall be pleased to have you report them.” For his part, the State Department would “endeavor to open all doors to you. We shall endeavor to make all people friendly to you . . .”<sup>54</sup>

Given the general approach to expansion shared by men such as Wilson, Straight, Bryan, and corporate spokesmen, the question of “inner” motive is somewhat irrelevant. For example, what may be said of Straight’s “inner” motive when he spoke of trade as the means to peace; or of the U.S. Steel Corporation’s president, James A. Farrell, when he told the Convention: “. . . there is no factor which is so much involved in . . . [the nation’s] material prosperity as the export trade,” and then proceeded to say that

due to its great significance with respect to the economic conditions of our financial relations with the markets of the world, the export trade is likewise a vital factor in international affairs. . . . The contest today is for supremacy in the trade of the world’s markets, because that country which is a commercial power is also a power in other respects.<sup>55</sup>

The important point is that they held in common the assumption that expansion of markets and investment abroad was indispensable to the stability and growth of the political economy. As Redfield had put it at the banquet when introducing Bryan as the next speaker, the mission of his fellow diners was “to make this land of ours one of continual increasing prosperity.” For he continued:

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<sup>54</sup> *Ibid.*, pp. 210–211.

<sup>55</sup> *Ibid.*, pp. 35, 36.

. . . we have learned the lesson now, that our factories are so large that their output at full time is greater than America's market can continuously absorb. We know now that if we will run full time all the time, we must do it by reason of the orders we take from lands beyond the sea. To do less than that means homes in America in which the husbands are without work; to do that means factories that are shut down part of the time. And because the markets of the world are greater and steadier than the markets of any country can be, and because we are strong, we are going out, you and I, into the markets of the world to get our share. (Applause.)<sup>56</sup>

The record leaves no reason to doubt that the knowledgeable corporate leaders understood and accepted as genuine the Administration's policy statements.<sup>57</sup> The difficulty, in their view, lay not with the Administration, but with the people. In this respect, upon closer examination, it is apparent that many of the pronouncements by businessmen in this period that have been interpreted as directed against the Wilson Administration, were more often directed against an "unenlightened" public and/or hostile senators or congressmen. As one businessman put it, the public must realize "that government assistance to American shipping and the American export trade is not only a business but a patriotic policy, pertaining to national defense as well as to our industrial welfare."<sup>58</sup> Or as Willard Straight phrased it, under current conditions of public opinion, "any administration may be attacked if it utilizes the power of the Government for the profit of

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<sup>56</sup> *Ibid.*, p. 205. For similar expressions on the indispensability of exports to the nation's prosperity by business and political leaders, see *ibid.*, pp. 6, 7, 70, 74, 80, 86, 117, 140, 141, 214, 218, 230-231, 285.

<sup>57</sup> See, e.g., the remark of M. A. Oudin of General Electric, *ibid.*, pp. 366, 367, 379-380.

<sup>58</sup> P. H. W. Ross, president of the National Marine League, *ibid.*, p. 143.

private interests, no matter what indirect advantage might accrue to the country as a whole." The problem was to educate the people to accept government support of private foreign investments as action not on behalf of a special, but of the national, interest.<sup>59</sup>

In the context of Wilson's approach to both foreign trade and the trust question, and of the community of views between large corporate interests and his Administration in these areas, the significance for foreign trade of the Federal Trade Commission Act, as the legislative embodiment of the "rule of reason," may be better comprehended.

It was generally recognized in business circles that the large industrial corporations were most suited to successful export trade, and that the rapid rise in exports of manufacturers from the late 1890s to 1914 had been due largely to the operations of these corporations. The large corporations enjoyed low unit costs necessary for competition in world markets, particularly in the capital and durable goods industries. Their superior reserves and intimate connections with the great financial institutions enabled them to carry the expense of foreign sales promotion, offer attractive foreign credit facilities, and reap the benefits of foreign loans and concessions, all indispensable to an expanding and stable export trade. It was these corporations that were most intimately involved in the "development" of agrarian nations. Since the export of manufactured goods was considered primary in maintaining the nation's international exchanges, in liquidating foreign debts, and in guaranteeing domestic prosperity, the success of any business or governmental policy looking to the promotion of export trade and the achievement of these related objectives appeared to stand or fall with the large corporation. A domestic policy, therefore, designed to atomize large corporations could only prove self-defeating.

These were the points emphasized by such prominent

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<sup>59</sup> *Ibid.*, pp. 174-187.

spokesmen for large corporate interests as John D. Ryan, president of the Amalgamated Copper Company, M. A. Oudin of General Electric, and Alba B. Johnson of the Baldwin Locomotive Works.<sup>60</sup> As Johnson put it: "To attack our business interests because by reason of intelligent management they have grown strong is to cripple them in the struggle for the world's trade."<sup>61</sup> But their views, insofar as they related to the maintenance of large business units, were in no essential respect different from those of Wilson, whose attitude, as already indicated, may be summed up by the declaration in his Acceptance Speech: ". . . I am not afraid of anything that is normal."<sup>62</sup> It is important to note, therefore, that the criticisms of "antitrust" bills pending in Congress by speakers at the 1914 National Foreign Trade Convention were leveled not against Wilson and his Administration, but against "radicals" in Congress and what was considered misguided and dangerous public opinion. They particularly applied to the policy of the previous Taft Administration, which in its last year and a half had "mined the Sherman Act for all it was worth."<sup>63</sup> But Wilson's position on the trust question was clear to all who read or heard his speeches, at any rate by early 1914; indeed, in his special address on the trusts to Congress in January, 1914, he had specifically declared: ". . . no measures of sweeping or novel change are necessary . . . our object is *not* to unsettle business or any-

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<sup>60</sup> See their remarks in *ibid.*, pp. 167, 168, 375-378, 327-328.

<sup>61</sup> *Ibid.*, pp. 327-328.

<sup>62</sup> *P P W W*, Vol. II, p. 464; *ibid.*

<sup>63</sup> Robert H. Wiebe, "The House of Morgan and the Executive, 1905-1913," *American Historical Review*, LXV, 1 (October, 1959), p. 58. Cf. *The Federal Antitrust Law with Amendments, List of Cases Instituted by the United States, and Citations of Cases Decided Thereunder or Relating Thereto*, January 1, 1914, in Senate Committee on the Judiciary, *Hearings . . . Together with Briefs and Memoranda . . . Compiled for Use in Consideration of H. R. 15657*, 63rd Cong., 2nd sess. (Washington, D.C., 1914), pp. 164-183.



where seriously to break its established courses athwart.”<sup>64</sup> Programmatically his position centered upon the legislative proposals advanced since the Hepburn amendments of 1908/09, by large corporate interests through such organizations as the Chicago Association of Commerce, the National Civic Federation, and later the United States Chamber of Commerce. And by the end of 1914, large corporate interests found that they could look with satisfaction upon the status of the nation’s antitrust laws.<sup>65</sup>

The New Freedom legislation on trusts bore upon matters of foreign trade expansion in a more overt way. In February, 1914, the Chamber of Commerce devoted its principal session, in which Secretary Redfield participated, to a discussion of the Administration’s trust program.<sup>66</sup> It was here that the Chamber appointed its special committee on trade commission legislation, of which William L. Saunders and Rublee were members. Other members included president of the Chamber R. G. Rhett, Professor

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<sup>64</sup> *PPWW*, Vol. III, pp. 82, 83. Emphasis in original.

<sup>65</sup> See, e.g., the report of William L. Saunders to the second National Foreign Trade Convention in January, 1915. Chairman of the board of the Ingersoll-Rand Company, Saunders was also a charter member of the National Foreign Trade Council, and had served with Rublee on the Chamber of Commerce’s special committee that played a leading part in drafting the trade commission act. Saunders observed that the Sherman Act prohibited only those restraints of trade that were “unreasonable or contrary to the public welfare,” and that there was “no likelihood” of its becoming “any more drastic.” The Clayton Act “defines a monopoly and . . . announces certain moral principles to which we all agree”; and the trade commission act “prevents unfair methods of competition,” and as such “is the most wholesome legislation . . . that has been passed recently” in the matter of trusts. Saunders criticized *opponents* of the trade commission act for not seeing that “cooperation among businessmen—cooperation and concentration—is wholesome business and a good economic condition.” NFTC, *Proceedings* (1915), pp. 54, 56.

<sup>66</sup> See *La Follette’s Weekly*, VI, 8 (February 21, 1914), p. 1-2.

Henry R. Seager of Columbia University, Charles R. Van Hise, president of the University of Wisconsin, and Guy E. Tripp, chairman of the board of directors of the Westinghouse Electric Manufacturing Company. One of the committee's recommendations, issued in the spring of 1914, urged that Congress "direct the Commission [when established] to investigate and report to Congress at the earliest practicable date on the advisability of amending the Sherman Act to allow a greater degree of cooperation" in the export trade. By a vote of 538 to 67 the Chamber's membership approved this specific recommendation (as did the National Foreign Trade Convention in May, 1914), along with the broader one supporting a trade commission act.<sup>67</sup> Accordingly, in the drafting of the act, which Rublee wrote, it was this Chamber committee that inserted word for word section 6(h), which authorized the trade commission to investigate world trade conditions and submit appropriate recommendations to Congress.<sup>68</sup> With Rublee and Hurley appointed by Wilson as two of the agency's five commissioners, the FTC undertook and completed in its first year of operation four investigations, three of which dealt with foreign trade conditions.<sup>69</sup> One of these resulted in the two-volume *Report on Cooperation in American Export Trade*, which recommended that Congress pass what was to become the Export Trade (Webb-Pomerene) Act of 1918 permitting cartels in the export trade, a bill that Wilson strongly supported.

The requirements of foreign-trade promotion also influenced, in a negative way, the nature of the Clayton Act. As Oudin reported to the Foreign Trade Convention of May, 1914:

. . . the Committee on the Judiciary of the House  
 . . . has reported a bill containing strict prohibitions

<sup>67</sup> Senate Committee on Interstate Commerce, "Promotion of Export Trade," *Hearings*, 64th Cong., 2nd sess., p. 11.

<sup>68</sup> *Ibid.*, pp. 10-12.

<sup>69</sup> *Annual Report of the Federal Trade Commission for the Year Ended June 30, 1916*, p. 18.

against discriminations in prices for exclusive agencies, but providing that such prohibitions shall apply only in respect to commodities sold within the jurisdiction of the United States. This emphatic recognition of the distinction between domestic and export commerce reflects the growing disposition of the Government to render sympathetic assistance to American exporters. . . .<sup>70</sup>

Just as the character of New Freedom legislation concerning the regulation of business related to the requirements of foreign-trade promotion and reflected a community of views between the corporate community and the Wilson Administration, the same was true, as already indicated, of the two most important New Freedom laws passed in 1913, the Underwood Tariff and the Federal Reserve Act.

When Bryan, in his banquet address to the Foreign Trade Convention delegates, cited the tariff and the reserve act as measures taken by the Administration for the promotion of foreign trade, he was not assuming the posture of protesting too much, nor was he merely waxing politically expedient to please his audience: the large corporate spokesmen among the delegates analyzed the two laws in precisely the same way. The two laws, it should be noted, were passed against the background of a trend among large industrial and financial interests, which had visibly emerged at least a decade before, toward tariff and banking structures oriented (*inter alia*) to their foreign trade and investment requirements. Bryan pointed to the elementary principle underlying the new tariff: "if we are to sell abroad, we must buy from people beyond our borders." The reserve act "will do more to promote trade in foreign lands than any other one thing that has been done in our history"; it had "set a nation free."<sup>71</sup> From no less a

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<sup>70</sup> NFTC, *Proceedings* (1914), p. 379; cf. House Committee on the Judiciary, *Hearings on Trust Legislation* (2 vols.), 63rd Cong., 2nd sess., Serial 7, 1914, pp. 11, 1960-1963.

<sup>71</sup> NFTC, *Proceedings* (1914), pp. 208-209.

figure in large corporate circles than John E. Gardin, vice-president of the National City Bank of New York, came a similar view. Complaining of the nation's immaturity in matters of international finance, Gardin found encouragement in the tariff and the reserve act.

. . . The administration . . . certainly has given us two things of which we might be proud: one, the reduction of the tariff . . . opening up the markets of the world,—if we want to sell we have got to buy; and the other is the Federal Reserve Law, which relieves us from the bondage

of an outmoded banking law, providing "relief just as important as the emancipation of the slaves. . . ." In view of these laws, Gardin looked forward to the projected program of the NFTC, as working "for the benefit of all those who wish to partake . . . of the new freedom."<sup>72</sup>

Among those spokesmen of industrial and financial interests who praised the Underwood Tariff, representatives of smaller interests were conspicuously absent. It is a mis-

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<sup>72</sup> *Ibid.*, pp. 249, 250–251. See also the remarks of Fred Brown Whitney, chairman of the board of directors of the Lake Torpedo Boat Co., Alba B. Johnson, Clarence J. Owens, managing director of the Southern Commercial Congress (at whose convention in 1913 Wilson had delivered his Mobile address), Herbert S. P. Deans, manager of the foreign exchange department of the Merchants Loan and Trust Company Bank of Chicago, Edward N. Hurley, representing the Illinois Manufacturers Association, *ibid.*, pp. 251, 22–23, 90–91, 304, 291. Whitney: the reserve act represented the people's "mandate—eternal and omnipotent—that the United States shall become a World Power in international finance and trade. . . ." Johnson: the new tariff was "part of the preparation . . . for this great forward movement in the world's market"; the reserve act "is designed particularly to facilitate exchange transactions with other nations. . . ." Owens: along with the Panama Canal the reserve act "announced the beginning of a period of direct financial relations" with Latin American markets, "giving America the chance, for the first time, to compete in this regard with Great Britain and Germany."

take to view the Underwood measure as part of a New Freedom crusade against large corporations. It was part of the New Freedom program; but the heathens were not necessarily the large corporations. It was part of an attack on "special privilege" conceived to be in conflict with the national interest understood in terms of the conditions of modern times; but it was the special privilege cherished by smaller and by nonindustrial interests, no longer needed by the larger interests as export trade became increasingly more important to them.

Aside from its immediate intent to stimulate export trade, the tariff, consistent with Wilson's views, sought to enforce industrial efficiency by inviting worldwide competition, which would result in making United States industry and finance a more formidable competitor in world markets. The larger industrial interests could withstand, and expect to fatten on, such competition, but not the smaller. Those items placed on the free list by the tariff were, in the majority, articles of food, clothing, and raw materials, industries occupied by the "little man." Large corporations engaged in the capital and durable goods industries, and most heavily involved in the export trade so far as manufactures were concerned, could approve this provision, because should the tariff have the intended effect, it would operate to keep wage levels down, reduce costs of materials, and in the process enable more effective competition in world markets, aside from increasing the profit rate. The issue was analogous to the great Corn Law debates in England during the previous century, where the industrialists sought to abolish import duties at the expense of producers of food and raw stuffs. Wilson, after all, had learned well from Cobden and Bright, the apostles of what has been aptly termed the "imperialism of free trade."<sup>73</sup>

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<sup>73</sup> See John Gallagher and Ronald Robinson, "The Imperialism of Free Trade," *The Economic History Review*, VI, 1, Second Series (August, 1953), pp. 1-15. This is not meant to imply that the Underwood Tariff was a free-trade tariff; it was, in

At the same time, those items of heavy industry placed upon the free list, such as steel rails and agricultural machinery and implements, were already produced by the larger United States corporations with an efficiency and at a cost of production sufficient to permit not only successful competition in world markets in general, but within the national markets of the European industrial nations as well, a point Wilson frequently made. Of further aid to such competition, moreover, the Underwood Tariff granted drawbacks on exported items comprised in part or in whole of imported materials subject to import duties.<sup>74</sup>

In effect, the Underwood Tariff strengthened the position of the larger corporations as against the smaller, and as against producers of agricultural materials. In this case, legal reform served the interest of those seeking to buttress the socioeconomic status quo, while adherence to established law and institutions rallied those whose interest lay in forestalling the onward rush of that status quo. Accordingly, the greatest danger to the Underwood bill's downward revisions while pending in Congress "came from a horde of lobbyists," among whom the "owners and managers of industries that produced the great bulk of American industrial products were unconcerned and took no part. . . ." As Link concluded, the Underwood duties assumed their greatest significance "in so far as they reflected a lessening of the pressure from the large industrial interests for a McKinley type of protection."<sup>75</sup> It is understandable, therefore, that among the congressional critics of the Underwood Tariff, as with the reserve act and

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Taussig's terms, a "competitive tariff." F. W. Taussig, *The Tariff History of the United States* (8th ed.; New York: G. P. Putnam's Sons, 1937), pp. 418-422.

<sup>74</sup> Federal Trade Commission, *Report on Cooperation in American Export Trade* (2 vols.), June 30, 1916, Vol. I, p. 162; Taussig, *op. cit.*, pp. 425-449.

<sup>75</sup> Link, *Wilson*, II, pp. 186, 196. The lobbyists included representatives of such interests as wool, sugar, textile manufactures, citrus fruits.

the trade commission and Clayton acts, were "radical" and insurgent Democrats and Republicans claiming to represent the smaller and agrarian interests. Insofar as the tariff, perhaps more dramatically than other issues, brought into unified focus the elements of efficiency, bigness in business, foreign trade, and an expanding sphere of enterprise—the last holding out the promise of more room for the "little man"—it may be accurately described as one of the high points of Wilsonian reform.

It is not meant to imply that the corporate community had no criticisms of the Underwood Tariff or Federal Reserve Act; but large corporate interests in particular viewed the new tariff either as a worthwhile experiment or more positively as sound policy; and business opinion overwhelmingly viewed the reserve act as basically sound, in need of perfecting amendments, rather than as a measure directed against their interests. The conflict over the reserve-system bill during 1913 had not revolved so much around the provisions of the bill as around the question of how and by whom those provisions should be administered, except insofar as the "radical" and agrarian Republicans and Democrats insisted upon provisions that Wilson rejected. Otherwise, with respect to the manner of administering the system, the division lay not between Wilson and the "small" interests on the one side and "big business" on the other: the large corporate interests themselves were divided, particularly, the evidence indicates, along industrial and financial lines. As Link noted, the great mass of nonbanking business opinion approved the bill, and in October, 1913, for example, both the Merchants Association of New York and the United States Chamber of Commerce (the latter by a vote of 306 to 17) endorsed it.<sup>76</sup>

The Federal Reserve Act may be interpreted, with respect to the issues raised here, in terms of a movement of large finance and corporate-industrial interests, extending

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<sup>76</sup> Link, *Wilson and the Progressive Era*, p. 51.

back to and before the National Monetary Commission, for branch banking, a commercial-acceptance market for the facilitation of foreign trade and investment, and a reserve system that would protect the gold stock from foreign and domestic runs; a movement that, by expanding the credit structure, would reduce industrial corporations' dependence upon the money markets for investment capital, and insulate industrial operations from stock-market fluctuations and speculators; a movement that Wilson approved and responded to favorably without himself being in any way responsible for its initiation, just as in the case of the movement for the Federal Trade Commission Act.

Indeed, upon his election, Wilson had no well-defined specific program; he had a general approach, and even his "specific" proposals were couched in general terms. He had identified himself with, and then given ideological and political leadership to, those movements with which his general approach corresponded, and which therefore corresponded with the concept of national interest embraced by that general approach. These movements—what are known as the Progressive reform movements (and they were reforms)—were movements led by and consisting of large corporate interests and political and intellectual leaders affirming the large corporate-industrial capitalist system, and convinced of the necessity of institutionalized reforms, legal and otherwise, to accommodate the nation's law and habits, and the people's thinking, to the new corporate business structure and its requirements, domestic and foreign. As Wilson had put it, laws "meant for business done by individuals" had to be "satisfactorily adjusted to business done by great combinations," requiring "open efforts to accommodate law to the material development which has so strengthened the country."

Wilson's careful and emphatic distinction between the large corporation and the trust may be cited as one of the more forceful illustrations substantiating this formulation.



A corollary of his evolutionary historicism, this distinction, in terms of Wilson's programmatic proposals, was decisive to his approach to the trust question, just as it was to that of the Bureau of Corporations under Garfield and Smith, and to that of Roosevelt, Taft, Perkins, Gary, and Croly. The large corporation, in this view, and the restriction of competition by corresponding forms of "cooperation," were the inevitable product of natural economic development. The trust, however, was an artificial contrivance of predatory design, deliberately created by unscrupulous businessmen for undue ends. Accordingly, Wilson believed that although ". . . the elaboration of business upon a great cooperative scale is characteristic of our time and has come about by the natural operation of western civilization," this was different from saying that the trusts were inevitable.

. . . Big business is no doubt to a large extent necessary and natural. The development of business upon a great scale, upon a great scale of cooperation, is inevitable, and . . . is probably desirable. But that is a very different matter from the development of trusts, because the trusts have not grown. They have been artificially created; they have been put together not by natural processes, but by the will, the deliberate planning will, of men who . . . wished to make their power secure against competition.

On the other hand, ". . . any large corporation built up by the legitimate processes of business, by economy, by efficiency, is natural; and I am not afraid of it, no matter how big it grows. . . ."77

Conservative-historicism, with Edmund Burke as one of its more prominent spokesmen, regarded the politico-economic sphere of society "as a completely irrational one which cannot be fabricated by mechanical methods but which grows of its own accord. This outlook relates every-

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77 *The New Freedom*, pp. 163-165, 166.

thing to the decisive dichotomy between 'construction according to calculated plan' and 'allowing things to grow.' . . ." ". . . A mode of thought is thus created which conceives of history as the reign of pre- and superrational forces."<sup>78</sup> This mode of thought, transmitted to Wilson in particular from Burke, may be traced as a central thread winding not only through the early twentieth-century liberalism (Progressivism) of Theodore Roosevelt, Croly, *et al.*, as well as Wilson, but also through the liberalism of such presently prominent bourgeois ideological leaders as Adolph A. Berle, Jr., who stated: ". . . Unlike the socialist commissariat, the American corporation is not a product of doctrine and dogma; it is an organic growth. . . ."<sup>79</sup> With respect to the basic structure of society, modern liberalism regards as legitimate only those institutions that it conceives as emerging independently of and beyond the deliberate, conscious determination of men; the underlying principle is submission to natural law, as distinguished, for example, from Marxism, which demands the understanding of objective laws of social development operating independently of man's will precisely in order to subject social development to man's conscious will; and as distinguished also from French Enlightenment social thought, which assumed that man could determine his society in accordance with Reason.<sup>80</sup> Conscious determination by men

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<sup>78</sup> Mannheim, *Ideology and Utopia*, pp. 120, 121.

<sup>79</sup> In his Foreword to Mason, ed., *The Corporation in Modern Society* (Cambridge: Harvard University Press, 1959), p. ix. In the same way, and characteristically, Wilson anticipated the downward revision of the tariff not "because men in this country have changed their theories," but because "the conditions of America are going to bust through [the high tariff]. . . ." "Efficiency" (January 27, 1912), *P P W W*, Vol. V, p. 360.

<sup>80</sup> In this connection, Wilson's conservative-historicism was reinforced by his adaptation of Darwin's theory of biological organic evolution to social evolution, though not in the form of survival-of-the-fittest "Social Darwinism" associated with Spencer,

assumes its legitimate and proper function, from the modern liberal standpoint, only in facilitating natural evolution (as manifested in the basic structure of society as it is), and in devising appropriate adjustments to it through parliamentary means (reforms).

The sharp and protracted ideological and social conflicts of the late nineteenth and early twentieth century, revolving around the corporate reorganization of the economy and erupting in the great antitrust debates of that period, suggest that the growth of the corporation was not so "organic" as modern United States liberals insist; that capitalists and like-minded political and intellectual leaders fought hard and consciously, with "doctrine and dogma" and with economic, political, and legal strategem, to establish the large corporation, in a historically short period of time, as the dominant mode of business enterprise, and to attain popular acceptance of that development. Nevertheless, the "allowing-things-to-grow" doctrine achieves a triumphant renaissance, as the unifying conception, in twentieth-century United States liberalism, which may be accurately referred to as corporate liberalism (though now Burke is left neglected backstage and Croly given the curtain calls). It is the fundamental element that makes modern United States liberalism the bourgeois Yankee cousin of modern European and English social democracy.<sup>81</sup>

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Sumner, and Fiske. See *Constitutional Government in the United States* (New York: Columbia University Press, 1908), pp. 56-57, 199-200, and *The New Freedom*, pp. 46, 47-48, where Wilson describes his view of government and social life as organic, Darwinian, as distinguished from the mechanistic, Newtonian conception of Montesquieu, the Enlightenment thinkers, and Jefferson. Cf. also, Diamond, *Economic Thought of Wilson*, pp. 39, 47, and Link, *Wilson*, I, pp. 21-22.

<sup>81</sup> Herbert Marcuse, *Reason and Revolution* (2nd ed.; New York: Humanities Press, 1954), pp. 398-401. Since completing this essay the author's attention has been drawn to Arnold A. Rogow's "Edmund Burke and the American Liberal Tradition," *The Antioch Review* (Summer, 1957), pp. 255-265,

Within this essentially natural-law framework, while consistently holding that the large industrial corporations were natural and beneficent products of social evolution, Wilson attributed much of the evils with which they were popularly associated to financiers, *dei ex machina*, manipulating corporate securities and practices for speculative profit and creating artificial corporate structures for monopolistic advantage.<sup>82</sup> At the same time, by tying credit and currency mechanisms to the "natural laws" of commerce, that is, by basing the banking system upon commercial paper rather than upon government bonds, and building up a reserve system, measures long sought by large financial and corporate-industrial interests, the Federal Reserve Act corresponded with Wilson's view that trade and investment should be set "free" to pursue their "natural" course, unhindered by the arbitrary will of a few financiers; in theory, it would encourage greater competition (through greater opportunities for investment borrowing), and permit "little men" to obtain credit with which to start or maintain a business enterprise of their own, though no longer in the central areas of production, transportation, or communication. *Mutatis mutandis*, Wilson's position on the tariff flowed from similar considerations: the government's role was to provide business with the "environment" best suited to the assertion of its "natural" course.

Wilson held no dogmatic views on the question of the extent of government intervention in economic affairs—he had long believed that the state should intervene so far as "experience permits or the times demand"—and with respect to the reserve act, he had by June, 1913, firmly decided upon government control of the central board, in the face of stiff banker opposition. The compromise that

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which analyzes the decisive relevance of Burke to Wilsonian liberalism in particular and modern United States liberalism in general.

<sup>82</sup> See, e.g., "Law or Personal Power" (April 13, 1908), *P P W W*, Vol. II, p. 29.

resulted constituted a concession to the large banking interests. After the bill's passage, and the announcement of Wilson's appointments to the central reserve board, the large banks' spokesmen, as well as spokesmen for large industrial corporations, expressed widespread satisfaction,<sup>83</sup> just as they had in the case of the Underwood Tariff and Federal Trade Commission Act.

In this way, Wilson emerged as a foremost ideological and political leader of a social movement affirming corporate-industrial capitalism, and as the preeminent personality in the nation's public life, acting as a bridge of communication between that movement and the public (or, the electorate to which the movement appealed), popularizing the movement's ideology and program, and making them understandable and acceptable to the people in terms of the nation's traditions, evolutionary development, and "destiny." The ideology embraced a neo-Comtean positivism that (in European terms) Wilson, the

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<sup>83</sup> See annual address of American Bankers' Association president Arthur Reynolds at the 1914 convention, and his later remarks at the same convention. *Proceedings of the Fortieth Annual Convention of the American Bankers' Association*, Richmond, Va., October 12-16, 1914, pp. 57-68, 312-315. See also letters expressing approval of the Federal Reserve Act from George M. Reynolds, president of Continental and Commercial National Bank of Chicago, A. Barton Hepburn, chairman of the board, Chase National Bank, and A. J. Hemphill, president of Guaranty Trust Company of New York, to F. H. Goff (president of Cleveland Trust Co.), president of Bankers' Association's Trust Company Section, dated September 23, October 9, October 5, 1914, respectively, in *ibid.*, pp. 305-308. Cf. *La Follette's Weekly*, VI, 4 (January 24, 1914), p. 3, where Jacob H. Schiff of Kuhn, Loeb & Co., is quoted praising the reserve law as "legislation highly pleasing to me." La Follette, who opposed the measure, remarked, ". . . The published reports that Wall Street banking interests were fighting the Administration's currency bill tooth and nail now appear somewhat pale in the light of the enthusiastic approval Wall Street is bestowing upon this law." See also, Link, *Wilson*, II, pp. 451-452, 454-455.

conservative-historicist and modified Manchesterian liberal, was eminently qualified to serve. Wilson's position was not that of a representative of the "little man," or the "middle class," *against* "big business"; but that of one who, affirming the large corporate-industrial capitalist system, was concerned with establishing the legal and institutional environment most conducive to the system's stability and growth, while preserving some place within the system for the little man. His formula was fair competition and impartial access to credit at home, and expansion of the economic frontier abroad, upon the assumption that the wider the market and the more impersonal its conditions, the more room and opportunity for the little man to coexist side by side with the big. The very conditions of industrial production and of foreign economic expansion, however, made the little man, as an independent entrepreneur, increasingly irrelevant to the national economy, except in peripheral spheres of services and distribution. Theodore Roosevelt sought to meet this disturbing reality by acknowledging it and insisting upon equal opportunity for every young man to rise within the established corporate structures. Although similarly insisting upon such equality, Wilson refused to concede the irrelevance of the little man; but his refusal was not a matter of sentimentality: it stemmed from his fear that given a growing irrelevance of little men in the nation's economy, fewer and fewer people would retain a stake in the capitalist system, and more and more would lose hope for betterment under capitalism and turn toward socialism or other forms of radicalism.<sup>84</sup> As such, the Wilsonian and Rooseveltian

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<sup>84</sup> As Wilson advised leading businessmen in his address at the Annual Banquet of the Economic Club in New York (May 23, 1912) *P P W W*, Vol. II, pp. 446, 449-451: ". . . How would it suit the prosperity of the United States, how would it suit the success of business, to have a people that went every day sadly or sullenly to their work? How would the future look to you if you felt that the aspiration has gone out of most

variants of Progressivism signified, if not the birth, then the coming of age, of twentieth-century United States liberalism, whose present-day fundamentals, converging upon large-scale corporate capitalism at home and economic expansion abroad, remain genetically true to the components of Wilson's world view, their immediate parental source.

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men, the confidence of success, the hope that they might change their condition, if there was everywhere the feeling that there was somewhere covert dictation, private arrangement as to who should be in the inner circle of privilege and who should not, a more or less systematic and conscious attempt to dictate and dominate the economic life of the country? Do you not see that just as soon as the old self-confidence of America, . . . as her old boasted advantages of individual liberty and opportunity are taken away, all the energy of her people begins to subside, to slacken, to grow loose and pulpy, without fibre, and men simply cast around to see that the day does not end disastrously with them."

"What is the alternative, gentlemen? You have heard the rising tide of socialism . . . Socialism is not growing in influence in this country as a programme. It is merely that the ranks of protestants are being recruited . . . If it becomes a programme, then we shall have to be very careful how we propose a competing programme . . . the programme of socialism would not work; but there is no use saying what will not work unless you can say what will work.

". . . If you want to oust socialism you have got to propose something better. It is a case, if you will allow me to fall into the language of the vulgar, of 'put up or shut up.' . . . It is by constructive purpose that you are going to govern and save the United States. . . .

"Very well, then, let us get together and form a constructive programme [that posterity will say that after America had passed through a simple age] . . . when the forces of society had come into hot contact, . . . there were men of serene enough intelligence, . . . of will and purpose to stand up once again . . . [and who found out] how to translate power into freedom, how to make men glad that they were rich, how to take the envy out of men's hearts that others were rich and they for a little while poor, by opening the gates of opportunity to every man. . . ."

According to the generally accepted interpretation offered by Arthur S. Link, Wilsonian Progressivism, as applied and developed during Wilson's two terms as President, from 1913 to 1921, can be divided into two periods: the first, the period of the New Freedom, characterized by government attempts to regulate and stand in hostile posture apart from big business, and directed at restoring some semblance of a laissez-faire, free-competition social order; the second, characterized by a government policy of cooperation with big business and active regulatory intervention in the economy. The divide, according to this view, lay somewhere around November, 1914 (though at points the divide is rolled back to early 1914, as a response to the continuing depression, leaving scarcely a year to the New Freedom phase). Thus, it is argued, the New Freedom was capable of serving the cause of Progressivism for only a short time; Progressivism gained new life after November, 1914, through the abandonment of the New Freedom and the move toward Herbert Croly's and Theodore Roosevelt's "New Nationalism."

If Wilson is properly understood in terms of the widely current evolutionary-positivistic world view that he shared alike with leading industrial and finance capitalists and with prominent politicians and intellectuals within the bipartisan Progressive movement, and if the approaches taken by his Administration to both foreign and domestic affairs are viewed as basically interrelated, rather than compartmentalized, as affecting each other, rather than operating in isolated spheres, then it is of greater analytical value to view the attitude assumed by Wilson and his Administration toward "business" before and after November, 1914, as undergoing consistent development, rather than fundamental change. That attitude corresponded with a world view that affirmed large-scale corporate-industrial capitalism as the natural and inevitable product of social evolution, and that regarded foreign investments and exports, defined in terms of the needs of industrial and



finance capital, as indispensable to the nation's prosperity and social well-being. Beneficence at home and abroad, in this view, was a function of necessity. Large corporate production appeared as the vehicle of domestic material progress; foreign economic expansion, considered a decisive condition of such production, promised to carry "civilization," bourgeois-liberal ideas and institutions, and a better way of life, to the agrarian areas of the world, particularly as "development" of natural resources in those areas was considered essential to such expansion.

It no more occurred to such liberals as Wilson than it did to the so-called Dollar Diplomats before him, or than it does today to the "internationalist" liberals, that investment in, and ownership of, other nations' resources, railroads, and industry, by United States capitalists, constituted imperialism or exploitation. Imperialism to them meant British- and European-style colonialism or exclusive spheres of interest; exploitation meant unscrupulous gouging, exorbitantly profitable concessions gained by undue influence with corrupt government officials, and the like, in short, "unfair practices" analogous to those characteristics that distinguished the trust from the large corporation in domestic affairs. Open-door expansion, on the other hand, appeared to them as simply the implementation of the natural international division of labor between the industrialized and agrarian nations; it meant mutually beneficial (and beneficent) business relationships and trade; it meant the assumption by the United States of its natural place in the world economy vis-à-vis the other industrial nations, by the elimination of "artificial" impediments to the operation of the laws of competitive commerce; it meant "free trade."<sup>85</sup>

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<sup>85</sup> See, e.g., Wilson's "Be Worthy of the Men of 1776" (July 4, 1914), *PPWW*, Vol. III, pp. 142-143: "The Department of State . . . is constantly called upon to back up the commercial . . . and the industrial enterprises of the United States in foreign countries, and it at one time went so far in that direc-

In the Wilsonian manner, former president Truman recently remarked: "The Open Door policy is not imperialism; it is free trade." Unfortunately, the bourgeois-liberal mind seems unable to understand how any transaction that involves the exchange of equivalent for equivalent can carry with it any quality of injustice or exploitation. In the economic realm, morality and justice are defined as exchange at value, so long as it is devoid of any element of extra-pecuniary coercion; in more sophisticated ideological terms, morality and justice correspond with natural law. But it is precisely in the relationship defined by natural law, precisely in the exchange of equivalent for equivalent (assuming the free and competitive exchange of equivalents in the first place, though this is often not the case), that the exploitation, the injustice, the immorality, from the point of view of the agrarian peoples, resides. For, whereas the relationship is reified by the liberal mind as purely an exchange of goods, a confrontation of things, of private properties, what is really involved is a relationship between human beings. Concern for the nicely balanced exchange of things according to their market value—"a fair field and no favor"—blinds the liberal mind to the real relationship between people, of which the exchange of goods is

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tion that all its diplomacy came to be designated as 'dollar diplomacy.' . . . But there ought to be a limit to that. There is no man who is more interested than I am in carrying the enterprise of American businessmen to every quarter of the globe. I was interested in it long before I was suspected of being a politician. I have been preaching it year after year as the great thing that lay in the future for the United States, to show her wit and skill and enterprise and influence in every country in the world. . . . [But if] American enterprise in foreign countries, particularly in those . . . which are not strong enough to resist us, takes the shape of imposing upon and exploiting the mass of the people . . . it ought to be checked and not encouraged. I am willing to get anything for an American that money and enterprise can obtain except the suppression of the rights of other men. I will not help any man buy a power which he ought not to exercise over his fellow-beings."

but a consequence, and to the resulting conditions of life (the "human relations" and "individual dignity" with which the liberal is so articulately preoccupied).<sup>86</sup> Hence, the innocent shock consistently evinced by liberals at anti-Americanism and resentment in the agrarian areas of the world regardless of whether United States foreign policy is of the Dollar Diplomacy or the Good Neighbor variety.

For, the essence of open-door expansion involved an international system of economy identical to that established by England and the European industrial nations with their colonies and other agrarian areas. The latter were to become increasingly familiar with modern relations of capital and labor, but with capital appearing in the form of the foreigner and labor in the form of the indigenous population; they were assigned the role of suppliers of raw materials and markets for industrial goods and capital investment; and, of particular importance, control over, and investment decisions affecting, decisive sectors of their economies were to be transferred from their determination to that of capitalists in the United States. Those sectors of

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<sup>86</sup> ". . . we are told that free trade would create an international division of labor, and thereby give to each country the production which is most in harmony with its natural advantages. You believe perhaps, gentlemen, that the production of coffee and sugar is the natural destiny of the West Indies. Two centuries ago, nature, which does not trouble herself about commerce, had planted neither sugar-cane nor coffee trees there." "If the free-traders cannot understand how one nation can grow rich at the expense of another, we need not wonder, since these same gentlemen also refuse to understand how within one country one class can enrich itself at the expense of another." ". . . the protectionist system is nothing but a means of establishing large-scale industry in any given country, . . . of making it dependent upon the world market, and from . . . [that] moment . . . there is already more or less dependence upon free trade. . . ." Marx, "On the Question of Free Trade," public speech delivered before the Democratic Association of Brussels, January 9, 1848, in *The Poverty of Philosophy* (Moscow: Foreign Languages Publishing House, n.d.), pp. 222-223, 224.

their economies were to become "complementary" to, and integrated with, the United States corporate economy, each an *imperium in imperio* within its respective nation, with all the implications of economic dislocation, political instability, and restriction of national economic and political independence. To Wilson, such implications were no necessary part of open-door expansion, but rather of imperialism and exploitation as he narrowly conceived them; as for the rest, it all appeared as only natural in relations between "capital surplus" and "capital deficient" nations, and as the mode of progress in international affairs.<sup>87</sup>

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<sup>87</sup> See, e.g., the report of Edward E. Pratt, chief of the Bureau of Foreign and Domestic Commerce under Wilson, for the fiscal year July 1, 1914, to June 30, 1915: ". . . we can never hope to realize the really big prizes in foreign trade until we are prepared to loan capital to foreign nations and to foreign enterprise. The big prizes . . . are the public and private developments of large proportions, . . . the building of railroads, the construction of public-service plants, the improvement of harbors and docks, . . . and many others which demand capital in large amounts. New countries are generally poor. They look to older and richer countries to supply them with the capital to make their improvements and to develop their resources. The country which furnishes the capital usually sells the materials and does the work . . . there is no doubt that the loans of one nation to another form the strongest kind of economic bond between the two. It is commonly said that trade follows the flag. It is much more truly said that trade follows the investment or the loan." ". . . A foreign commercial policy . . . is gradually taking shape under a wise and careful administration. American investments abroad are being encouraged. The fact that investment must precede trade and that investments abroad must be safeguarded is fully recognized." *Reports of the Department of Commerce*, October 30, 1915 (Washington, D.C., 1916), pp. 247, 249. Cf. the more recent statement of the prominent liberal spokesman, Dean Acheson: ". . . in the nineteenth century an international system of sorts not only kept the peace for a century but also provided highly successful economic working agreements. It brought about the industrialization of Europe and of many other parts of the world—our own country, for one. It

It was the part of statesmanship to make law the expression of the necessities and facts of the time: to institutionalize the ground rules of the corporate economy at home and the mechanisms of economic expansion abroad, so that day-to-day business, the laws of commerce, and the government's role with respect to them, might flow smoothly along settled paths, rather than by the fits and starts of fire-brigade policy or executive fiat. As Wilson had put it in 1907: ". . . an institution is merely an established practice, an habitual method of dealing with the circumstances of life or the business of government. . . ." <sup>88</sup> In Wilson's view, it was this, with respect to

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stimulated production of raw materials and led to a great, though unevenly distributed, rise in the standard of living. This was accomplished by the export of capital, primarily by Great Britain, but also by all of Western Europe." ". . . a system for the export of capital, much greater than our present . . . efforts, is necessary. The system has been destroyed which expanded the power of Western Europe. . . . One to replace it will be devised, managed, and largely (but not wholly) financed by the United States; otherwise, it is likely to be provided by the Soviet Union, under circumstances destructive of our own power. . . ." "Foreign investment can provide wider opportunity for use of national energies. This can well enhance pride in national achievement and relieve frustrations among members of the populace now denied opportunity to use their full capabilities and training. This should tend to lessen xenophobia, strengthen social fabric and political stability, and bring new meaning to national independence. . . ." Acheson, *Power and Diplomacy* (Cambridge, Mass.: Harvard University Press, 1958), pp. 18, 19-20, 22. The first chapter of the book includes a subsection entitled, "The Collapse of a World Order," referring to the disintegration of the imperial system of the nineteenth century, and argues the necessity of replacing it with one similar to it, in its economic aspects, led by the United States. Acheson prefaces the chapter with lines of verse from Alfred Noyes: "When his hundred years expire / Then he'll set himself a-fire / And another from his ashes rise most beautiful to see!"

<sup>88</sup> Wilson, *Constitutional Government*, p. 14.

modern circumstances of the modern industrial order, that the legislation of 1913/14 promised to do.

Historians who have studied Wilson appear to harbor guilt feelings about capitalism: a policy based upon considerations of the economic imperatives of capitalism is sordid, immoral, or amoral; a policy based upon noneconomic principle is moralistic. The corporate and political policy-makers of the United States, Wilson included, have had no such guilt feelings or compulsion to make such a division in their thinking. To them there was (and is) nothing immoral about capitalism; it embraces the highest morality. The strength and spread of morality appear as the function of the strength and spread of capitalism. Historians, however, disregarding the imperatives of modern capitalism, while assuming its existence all the same, seem to have created an ideal construct of what liberalism ought to be, arbitrarily imputing to it certain characteristics of a transcendent nature and withholding from it others, particularly those relating to the affairs of political economy. It is an academic, idealized liberalism, not the responsible political liberalism as it operates as a functional ideology outside the university walls; it is a liberalism from which historians have written history in the manner of advice, consent, and dissent, rather than history that analyzes the nature of liberal ideology as it operates and appears in the hurly-burly of political economy. Accordingly, historians have tended to appraise the nature of the Wilsonian liberal (or Progressive) movement by deduction from, and in comparison with, the supposed nature of its ideology, instead of basing their analyses on an empirical study of the movement and comprehending the ideology of its leaders as emerging from and interacting with that movement and its adversaries. The latter approach is particularly essential to an analysis of Wilson, to whom the great issues of his day turned upon concrete economic interests and questions.

Finding that Wilson's thought and policies often deviated from the ideal model, many historians have concluded superficially that Wilson was a "hypocrite" or a conservative in liberal's clothing. The point raised here, however, is not a quarrel about whether Wilson was in fact a liberal or a Progressive; on the contrary, it is submitted that a successful, comprehensive effort at analyzing precisely what Wilsonian liberalism or Progressivism was (and modern United States liberalism in general) has yet to be made.

It would be conducive to a more impartial and comprehensive understanding of Wilson and Wilsonianism to discard as a tool of analysis both the New Freedom–New Nationalism formula and the "moralism" versus "commercialism" presumption. This approach sees behind the New Freedom the shadow of a misconstrued Brandeis, who is taken inaccurately to symbolize an anti-big business program for the restoration of some sort of laissez-faire, free-competition society; more accurately, it sees behind the New Nationalism the shadow of Croly as represented in his book, *The Promise of American Life* (New York: Dutton Paperbacks, 1963). At the outset, and only at the outset, it may be more pertinent and analytically suggestive to a reevaluation of Wilson and Wilsonianism, to see instead the shadow of Croly-the-adolescent behind the earlier years of Wilson's presidency, Croly-the-strapping-young-man behind the later (and lingering into the 1920s), with Croly-the-nearly-mature biding his time until the advent of the New Deal. In view of the present "national purpose" campaign of corporate spokesmen, liberal political and intellectual leaders, the Luce publications and *The New York Times*, short of a basic reordering of United States society, Croly-the-mature may yet arrive, and then the nation will surely be in need of a new freedom.

# War Collectivism in World War I

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MURRAY N. ROTHBARD

More than any other single period, World War I was the critical watershed for the American business system. It was a "war collectivism," a totally planned economy run largely by big-business interests through the instrumentality of the central government, which served as the model, the precedent, and the inspiration for state corporate capitalism for the remainder of the twentieth century. That inspiration and precedent emerged not only in the United States, but also in the war economies of the major combatants of World War I. War collectivism showed the big-business interests of the Western world that it was possible to shift radically from the previous, largely free-market, capitalism to a new order marked by strong government, and extensive and pervasive government intervention and planning, for the purpose of providing a network of subsidies and monopolistic privileges to business, and especially to large business, interests. In particular, the economy could be cartelized under the aegis of government, with prices raised and production fixed and restricted, in the classic pattern of monopoly; and military and other government contracts could be channeled into the hands of favored corporate producers. Labor, which had been becoming increasingly rambunctious, could be tamed and



bridled into the service of this new, state monopoly-capitalist order, through the device of promoting a suitably cooperative trade unionism, and by bringing the willing union leaders into the planning system as junior partners.

In many ways, the new order was a striking reversion to old-fashioned mercantilism, with its aggressive imperialism and nationalism, its pervasive militarism, and its giant network of subsidies and monopolistic privileges to large business interests. In its twentieth-century form, of course, the New Mercantilism was industrial rather than mercantile, since the industrial revolution had intervened to make manufacturing and industry the dominant economic form. But there was a more significant difference in the New Mercantilism. The original mercantilism had been brutally frank in its class rule, and in its scorn for the average worker and consumer.<sup>1</sup> Instead, the new dispensation cloaked the new form of rule in the guise of promotion of the overall national interest, of the welfare of the workers through the new representation for labor, and of the common good of all citizens. Hence the importance, for providing a much-needed popular legitimacy and support, of the new ideology of twentieth-century liberalism, which sanctioned and glorified the new order. In contrast to the older laissez-faire liberalism of the previous century, the new liberalism gained popular sanction for the new system by proclaiming that it differed radically from the old, exploitative mercantilism in its advancement of the welfare of the whole society. And in return for this ideological

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<sup>1</sup> On the attitudes of the mercantilists toward labor, see Edgar S. Furniss, *The Position of the Laborer in a System of Nationalism* (New York: Kelley & Millman, 1957). Thus, Furniss cites the English mercantilist William Petyt, who spoke of labor as a "capital material . . . raw and undigested . . . committed into the hands of supreme authority, in whose prudence and disposition it is to improve, manage, and fashion it to more or less advantage." Furniss adds that "it is characteristic of these writers that they should be so readily disposed to trust in the wisdom of the civil power to 'improve, manage and fashion' the economic raw material of the nation." P. 41.

buttressing by the new "corporate" liberals, the new system furnished the liberals the prestige, the income, and the power that came with posts for the concrete, detailed planning of the system as well as for ideological propaganda on its behalf.

For their part, the liberal intellectuals acquired not only prestige and a modicum of power in the new order, they also achieved the satisfaction of believing that this new system of government intervention was able to transcend the weaknesses and the social conflicts that they saw in the two major alternatives: laissez-faire capitalism or proletarian, Marxian socialism. The intellectuals saw the new order as bringing harmony and cooperation to all classes on behalf of the general welfare, under the aegis of big government. In the liberal view, the new order provided a middle way, a "vital center" for the nation, as contrasted to the divisive "extremes" of left and right.

## I

We have no space here to dwell on the extensive role of big business and business interests in getting the United States into World War I. The extensive economic ties of the large business community with England and France, through export orders and through loans to the Allies, especially those underwritten by the politically powerful J. P. Morgan & Co. (which also served as agent to the British and French governments), allied to the boom brought about by domestic and Allied military orders, all played a leading role in bringing the United States into the war. Furthermore, virtually the entire Eastern business community supported the drive toward war.<sup>2</sup>

Apart from the role of big business in pushing America

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<sup>2</sup> On the role of the House of Morgan, and other economic ties with the Allies in leading to the American entry into the war, see Charles Callan Tansill, *America Goes to War* (Boston: Little, Brown & Co., 1938), pp. 32-134.

down the road to war, business was equally enthusiastic about the extensive planning and economic mobilization that the war would clearly entail. Thus, an early enthusiast for war mobilization was the United States Chamber of Commerce, which had been a leading champion of industrial cartelization under the aegis of the federal government since its formation in 1912. The Chamber's monthly, *The Nation's Business*, foresaw in mid-1916 that a mobilized economy would bring about a sharing of power and responsibility between government and business. And the chairman of the U.S. Chamber's Executive Committee on National Defense wrote to the du Ponts, at the end of 1916, of his expectation that "this munitions question would seem to be the greatest opportunity to foster the new spirit" of cooperation between government and industry.<sup>3</sup>

The first organization to move toward economic mobilization for war was the Committee on Industrial Preparedness, which in 1916 grew out of the Industrial Preparedness Committee of the Naval Consulting Board, a committee of industrial consultants to the Navy dedicated to considering the ramifications of an expanding American Navy. Characteristically, the new CIP was a closely blended public-private organization, officially an arm of the federal government but financed solely by private contributions. Moreover, the industrialist members of the committee, working patriotically without fee, were thereby able to retain their private positions and incomes. Chairman of the CIP, and a dedicated enthusiast for industrial mobilization, was Howard E. Coffin, vice-president of the important Hudson Motor Co. of Detroit. Under Coffin's direction, the CIP organized a national inventory of thousands of industrial facilities for munitions-making. To propagandize for this effort, christened "industrial preparedness," Coffin was able to mobilize the American Press Association, the Associated

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<sup>3</sup> Quoted in Paul A. C. Koistinen, "The 'Industrial-Military Complex' in Historical Perspective: World War I," *Business History Review* (Winter, 1967), p. 381.

Advertising Clubs of the World, the august *New York Times*, and the great bulk of American industry.<sup>4</sup>

The CIP was succeeded, in late 1916, by the fully governmental Council of National Defense, whose Advisory Commission—largely consisting of private industrialists—was to become its actual operating agency. (The Council proper consisted of several members of the Cabinet.) President Wilson announced the purpose of the CND as organizing “the whole industrial mechanism . . . in the most effective way.” Wilson found the Council particularly valuable because it “opens up a new and direct channel of communication and cooperation between business and scientific men and all departments of the Government. . . .”<sup>5</sup> He also hailed the personnel of the Council’s Advisory Commission as marking “the entrance of the nonpartisan engineer and professional man into American governmental affairs” on an unprecedented scale. These members, declared the President grandiloquently, were to serve without pay, “efficiency being their sole object and Americanism their only motive.”<sup>6</sup>

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<sup>4</sup> The leading historian of World War I mobilization of industry, himself a leading participant and director of the Council of National Defense, writes with scorn that the scattered exceptions to the chorus of business approval “revealed a considerable lack . . . of that unity of will to serve the Nation that was essential to the fusing of the fagots of individualism into the unbreakable bundle of national unity.” Grosvenor B. Clarkson, *Industrial America in the World War* (Boston: Houghton Mifflin Co., 1923), p. 13. Clarkson’s book, incidentally, was subsidized by Bernard Baruch, the head of industrial war collectivism; the manuscript was checked carefully by one of Baruch’s top aides. Clarkson, a public relations man and advertising executive, had begun his effort by directing publicity for Coffin’s industrial preparedness campaign in 1916. See Robert D. Cuff, “Bernard Baruch: Symbol and Myth in Industrial Mobilization,” *Business History Review* (Summer, 1969), p. 116.

<sup>5</sup> Clarkson, *op. cit.*, p. 21.

<sup>6</sup> *Ibid.*, p. 22.

Exulting over the new CND, Howard Coffin wrote to the du Ponts in December, 1916, that "it is our hope that we may lay the foundation for that closely knit structure, industrial, civil and military, which every thinking American has come to realize is vital to the future life of this country, in peace and in commerce, no less than in possible war."<sup>7</sup>

Particularly influential in establishing the CND was Secretary of the Treasury William Gibbs McAdoo, son-in-law of the President, and formerly promoter of the Hudson and Manhattan Railroad and associate of the Ryan interests in Wall Street.<sup>8</sup> Head of the Advisory Commission was Walter S. Gifford, who had been one of the leaders of the Coffin Committee and had come to government from his post as chief statistician of the American Telephone and Telegraph Co., a giant monopoly enterprise in the Morgan ambit. The other "nonpartisan" members were: Daniel Willard, president of the Baltimore and Ohio Railroad; Wall Street financier Bernard M. Baruch; Howard E. Coffin; Julius Rosenwald, president of Sears, Roebuck and Co.; Samuel Gompers, president of the AF of L; and one scientist and one leading surgeon.

Months before American entry into the war, the Advisory Commission of the CND designed what was to become the entire system of purchasing war supplies, the system of food control, and censorship of the press. It was the Advisory Commission that met with the delighted representatives of the various branches of industry, and told the

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<sup>7</sup> Koistinen, *op. cit.*, p. 385.

<sup>8</sup> Originating the idea of the CND was Dr. Hollis Godfrey, president of the Drexel Institute, an industrial training and management education organization. Also influential in establishing the CND was the joint military-civilian Kerner Board, headed by Colonel Francis J. Kerner, and including as its civilian members: Benedict Crowell, chairman of Crowell & Little Construction Co. of Cleveland and later Assistant Secretary of War; and R. Goodwyn Rhett, president of the People's Bank of Charleston, and president as well of the Chamber of Commerce of the United States. *Ibid.*, pp. 382, 384.

businessmen to form themselves into committees for sale of their products to the government, and for the fixing of the prices of these products. Daniel Willard was, unsurprisingly, put in charge of dealing with the railroads, Howard Coffin with munitions and manufacturing, Bernard Baruch with raw materials and minerals, Julius Rosenwald with supplies and Samuel Gompers with labor. The idea of establishing committees of the various industries, "to get their resources together," began with Bernard Baruch. CND commodity committees, in their turn, invariably consisted of the leading industrialists in each field; these committees would then negotiate with the committees appointed by industry.<sup>9</sup>

At the recommendation of the Advisory Commission, Herbert Clark Hoover was named head of the new Food Administration. By the end of March, 1917, the CND appointed a Purchasing Board, to coordinate government's purchases from industry. Chairman of this Board, the name of which was soon changed to the General Munitions Board, was Frank A. Scott, a well-known Cleveland manufacturer, and president of Warner & Swasey Co.

Yet centralized mobilization was proceeding but slowly through the tangle of bureaucracy, and the United States Chamber of Commerce urged Congress that the director of the CND "should be given power and authority in the economic field analogous to that of the chief of state in the military field."<sup>10</sup> Finally, in early July, the raw materials, munitions, and supplies departments were brought to-

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<sup>9</sup> As one of many examples, the CND's "Cooperative Committee on Copper" consisted of: the president of Anaconda Copper, the president of Calumet and Hecla Mining, the vice-president of Phelps Dodge, the vice-president of Kennecott Mines, the president of Utah Copper, the president of United Verde Copper, and Murray M. Guggenheim of the powerful Guggenheim family interests. And the American Iron and Steel Institute furnished the representatives of that industry. Clarkson, *op. cit.*, pp. 496-497; Koistinen, *op. cit.*, p. 386.

<sup>10</sup> Clarkson, p. 28.

gether under a new War Industries Board, with Scott as Chairman, the board that was to become the central agency for collectivism in World War I. The functions of the WIB soon became the coordinating of purchases, the allocation of commodities, and the fixing of prices and priorities in production.

Administrative problems beset the WIB, however, and a satisfactory "autocrat" was sought to rule the entire economy as chairman of the new organization. The willing autocrat was finally discovered in the person of Bernard Baruch in early March, 1918. With the selection of Baruch, urged strongly upon President Wilson by Secretary McAdoo, war collectivism had achieved its final form.<sup>11</sup> Baruch's credentials for the task were unimpeachable; an early supporter of the drive toward war, Baruch had presented a scheme for industrial war mobilization to President Wilson as early as 1915.

The WIB developed a vast apparatus that connected to the specific industries through commodity divisions largely staffed by the industries themselves. The historian of the WIB, himself one of its leaders, exulted that the WIB had established

a system of concentration of commerce, industry, and all the powers of government that was without compare among all the other nations. . . . It was so interwoven with the supply departments of the army and navy, of the Allies, and with other departments of the Government that, while it was an entity of its own . . . its decisions and its acts . . . were always based on a conspectus of the whole situation. At the same time, through the commodity divisions and sections in contact with responsible committees of the commodities dealt with, the War Industries

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<sup>11</sup> Scott and Willard had successively been Chairman, which post was then offered to Homer Ferguson, president of the Newport News Shipbuilding Co. and later head of the United States Chamber of Commerce.

Board extended its antennae into the innermost recesses of industry. Never before was there such a focusing of knowledge of the vast field of American industry, commerce, and transportation. Never was there such an approach to omniscience in the business affairs of a continent.<sup>12</sup>

Big-business leaders permeated the WIB structure from the board itself down to the commodity sections. Thus, Vice-Chairman Alexander Legge came from International Harvester Co.; businessman Robert S. Brookings was the major force in insisting on price-fixing; George N. Peek, in charge of finished products, had been vice-president of Deere & Co., a leading farm equipment manufacturer. Robert S. Lovett, in charge of priorities, was chairman of the board of Union Pacific Railroad, and J. Leonard Replegle, Steel Administrator, had been president of the American Vanadium Co. Outside of the direct WIB structure, Daniel Willard of the Baltimore & Ohio was in charge of the nation's railroads, and big businessman Herbert C. Hoover was the "Food Czar."

In the granting of war contracts, there was no nonsense about competitive bidding. Competition in efficiency and cost was brushed aside, and the industry-dominated WIB handed out contracts as it saw fit.

Any maverick individualistic firm that disliked the mandates and orders of the WIB was soon crushed between the coercion wielded by government and the collaborating opprobrium of his organized business colleagues. Thus, Grosvenor Clarkson writes:

Individualistic American industrialists were aghast when they realized that industry had been drafted, much as manpower had been. . . . Business willed its own domination, forged its bonds, and policed its own subjection. There were bitter and stormy protests here and there, especially from those industries that were

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<sup>12</sup> Clarkson, *op. cit.*, p. 63.



curtailed or suspended. . . . [But] the rents in the garment of authority were amply filled by the docile and cooperative spirit of industry. The occasional obstructor fled from the mandates of the Board only to find himself ostracized by his fellows in industry.<sup>13</sup>

One of the most important instrumentalities of wartime collectivism was the Conservation Division of the WIB, an agency again consisting largely of leaders in manufacturing. The Conservation Division had begun as the Commercial Economy Board of the CND, the brainchild of its first chairman, Chicago businessman A. W. Shaw. The Board, or Division, would suggest industrial economies, and encourage the industry concerned to establish cooperative regulations. The Board's regulations were supposedly "voluntary," a voluntarism enforced by "the compulsion of trade opinion—which automatically policed the observance of the recommendations." For "a practice adopted by the overwhelming consent and even insistence of . . . [a man's] fellows, especially when it bears the label of patriotic service in a time of emergency, is not lightly to be disregarded."<sup>14</sup>

In this way, in the name of wartime "conservation," the Conservation Division set out to rationalize, standardize, and cartelize industry in a way that would, hopefully, continue permanently after the end of the war. Arch W. Shaw summed up the Division's task as follows: to drastically reduce the number of styles, sizes, etc., of the products of industry; to eliminate various styles and varieties; to standardize sizes and measures. That this ruthless and thoroughgoing suppression of competition in industry was not thought of as a purely wartime measure is made clear in this passage by Grosvenor Clarkson:

The World War was a wonderful school. . . . It showed us how so many things may be bettered that

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<sup>13</sup> *Ibid.*, pp. 154, 159.

<sup>14</sup> *Ibid.*, p. 215.

we are at a loss where to begin with permanent utilization of what we know. The Conservation Division alone showed that merely to strip from trade and industry the lumber of futile custom and the encrustation of useless variety would return a good dividend on the world's capital. . . . It is, perhaps, too much to hope that there will be any general gain in time of peace from the triumphant experiment of the Conservation Division. Yet now the world needs to economize as much as in war.<sup>15</sup>

Looking forward to future cartelization, Clarkson declared that such peacetime "economizing . . . implies such a close and sympathetic affiliation of competitive industries as is hardly possible under the decentralization of business that is compelled by our antitrust statutes."

Bernard Baruch's biographer summarized the lasting results of the compulsory "conservation" and standardization as follows:

Wartime conservation had reduced styles, varieties, and colors of clothing. It had standardized sizes. . . . It had outlawed 250 different types of plow models in the U.S., to say nothing of 755 types of drills . . . mass production and mass distribution had become the law of the land. . . . This, then, would be the goal of the next quarter of the twentieth century: "To Standardize American Industry"; to make of wartime necessity a matter of peacetime advantage.<sup>16</sup>

Not only the Conservation Division, but the entire structure of wartime collectivism and cartelization constituted a vision to business and government of a future peacetime economy. As Clarkson frankly put it:

It is little wonder that the men who dealt with the industries of a nation . . . meditated with a sort of

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<sup>15</sup> *Ibid.*, p. 230.

<sup>16</sup> Margaret L. Coit, *Mr. Baruch* (Boston: Houghton Mifflin Co., 1957), p. 219.

intellectual contempt on the huge hit-and-miss confusion of peacetime industry, with its perpetual cycle of surfeit and dearth and its internal attempt at adjustment after the event. From their meditations arose dreams of an ordered economic world. . . .

They conceived of America as "commodity sectioned" for the control of world trade. They beheld the whole trade of the world carefully computed and registered in Washington, requirements noted, American resources on call, the faucets opened or closed according to the circumstances. In a word, a national mind and will confronting international trade and keeping its own house in business order.<sup>17</sup>

Heart and soul of the mechanism of control of industry by the WIB were its sixty-odd commodity sections, committees supervising the various groups of commodities, which were staffed almost exclusively by businessmen from the respective industries. Furthermore, these committees dealt with over three hundred "war service committees" of industry appointed by the respective industrial groupings under the aegis of the Chamber of Commerce of the United States. It is no wonder that in this cozy atmosphere, there was a great deal of harmony between business and government. As Clarkson admiringly described it:

Businessmen wholly consecrated to government service, but full of understanding of the problems of industry, now faced businessmen wholly representative of industry . . . but sympathetic with the purpose of government.<sup>18</sup>

And:

The commodity sections were business operating Government business for the common good. . . . The war committees of industry knew, understood, and be-

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<sup>17</sup> Clarkson, *op. cit.*, p. 312.

<sup>18</sup> *Ibid.*, p. 303.

lieved in the commodity chiefs. They were of the same piece.<sup>19</sup>

All in all, Clarkson exulted that the commodity sections were "industry mobilized and drilled, responsive, keen, and fully staffed. They were militant and in serried ranks."<sup>20</sup>

The Chamber of Commerce was particularly enthusiastic over the war service committee system, a system that was to spur the trade association movement in peacetime as well. Chamber President Harry A. Wheeler, vice-president of the Union Trust Co. of Chicago, declared that:

Creation of the War Service Committees promises to furnish the basis for a truly national organization of industry whose preparations and opportunities are unlimited. . . . The integration of business, the expressed aim of the National Chamber, is in sight. War is the stern teacher that is driving home the lesson of cooperative effort.<sup>21</sup>

The result of all this new-found harmony within each industry, and between industry and government, was to "substitute cooperation for competition." Competition for government orders was virtually nonexistent, and "competition in price was practically done away with by Government action. Industry was for the time in . . . a golden age of harmony," and freed from the menace of business losses.<sup>22</sup>

One of the crucial functions of wartime planning was price-fixing, set in the field of industrial commodities by the Price-Fixing Committee of the War Industries Board. Be-

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<sup>19</sup> *Ibid.*, pp. 300-301.

<sup>20</sup> *Ibid.*, p. 309. On the War Industries Board, the commodity sections, and on big-business sentiment paving the path for the coordinated industry-government system, see James Weinstein, *The Corporate Ideal in the Liberal State, 1900-1918* (Boston: Beacon Press, 1969), p. 223 and *passim*.

<sup>21</sup> In *The Nation's Business* (August, 1918), pp. 9-10. Quoted in Koistinen, *op. cit.*, pp. 392-393.

<sup>22</sup> Clarkson, *op. cit.*, p. 313.

ginning with such critical areas as steel and copper early in the war and then inexorably expanding to many other fields, the price-fixing was sold to the public as the fixing of maximum prices in order to protect the public against wartime inflation. In fact, however, the government set the price in each industry at such a rate as to guarantee a "fair profit" to the high-cost producers, thereby conferring a large degree of privilege and high profits upon the lower-cost firms.<sup>23</sup> Clarkson admitted that this system

was a tremendous invigoration of big business and hard on small business. The large and efficient producers made larger profits than normally and many of the smaller concerns fell below their customary returns.<sup>24</sup>

But the higher-cost firms were largely content with their "fair profit" guarantee.

The attitude of the Price-Fixing Committee was reflected in the statement of its Chairman, Robert S. Brookings, a retired lumber magnate, addressed to the nickel industry: "We are not in an attitude of envying you your profits; we are more in the attitude of justifying them if we can. That is the way we approach these things."<sup>25</sup>

Typical of the price-fixing operation was the situation in the cotton textile industry. Chairman Brookings reported in April, 1918, that the cotton goods committee had decided to "get together in a friendly way" to try to "stabilize the market." Brookings appended the feeling of the larger cotton manufacturers that it was better to fix a high long-

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<sup>23</sup> See George P. Adams, Jr., *Wartime Price Control* (Washington, D.C.: American Council on Public Affairs, 1942), pp. 57, 63-64. As an example, the government fixed the price of copper f.o.b. New York at 23½ cents per pound. The Utah Copper Co., which produced over 8 percent of the total copper output, had estimated costs of 11.8 cents per pound. In this way, Utah Copper was guaranteed nearly 100 percent profit on costs. *Ibid.*, p. 64n.

<sup>24</sup> Clarkson, *op. cit.*, p. 173.

<sup>25</sup> Adams, *op. cit.*, pp. 57-58.

run minimum price than to take full short-run advantage of the very high prices then in existence.<sup>26</sup>

The general enthusiasm of the business world, and especially big business, for the system of war collectivism can now be explained. The enthusiasm was a product of the resulting stabilization of prices, the ironing out of market fluctuations, and the fact that prices were almost always set by mutual consent of government and the representatives of each industry. It is no wonder that Harry A. Wheeler, president of the United States Chamber of Commerce, wrote in the summer of 1917 that war "is giving business the foundation for the kind of cooperative effort that alone can make the U.S. economically efficient." Or that the head of American Telephone and Telegraph hailed the perfecting of a "coordination to ensure complete cooperation not only between the Government and the companies, but between the companies themselves." The wartime cooperative planning was working so well, in fact, opined the chairman of the board of Republic Iron and Steel in early 1918, that it should be continued in peacetime as well.<sup>27</sup>

The vitally important steel industry is an excellent example of the workings of war collectivism. The hallmark of the closely knit control of the steel industry was the close "cooperation" between government and industry, a cooperation in which Washington decided on broad policy, and then left it up to Judge Elbert Gary, head of the leading steel producer, United States Steel, to implement the policy within the industry. Gary selected a committee representing the largest steel producers to help him run the industry. A willing ally was present in J. Leonard Replogle, head of American Vanadium Co. and chief of the Steel Division of the WIB. Replogle shared the long-standing desire of Gary and the steel industry for industrial carteli-

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<sup>26</sup> Weinstein, *op. cit.*, pp. 224-225.

<sup>27</sup> Melvin I. Urofsky, *Big Steel and the Wilson Administration* (Columbus, Ohio: Ohio State University Press, 1969), pp. 152-153.

zation and market stability under the aegis of a friendly federal government. Unsurprisingly, Gary was delighted with his new powers in directing the steel industry, and urged that he be given total power "to thoroughly mobilize and if necessary to commandeer." And *Iron Age*, the magazine of the iron and steel industry, exulted that

it has apparently taken the most gigantic war in all history to give the idea of cooperation any such place in the general economic program as the country's steel manufacturers sought to give it in their own industry nearly ten years ago

with the short-lived *entente cordiale* between Judge Gary and President Roosevelt.<sup>28</sup>

It is true that wartime relations between government and steel companies were sometimes strained, but the strain and the tough threat of government commandeering of resources was generally directed at smaller firms, such as Crucible Steel, which had stubbornly refused to accept government contracts.<sup>29</sup>

In the steel industry, in fact, it was the big steelmakers—U.S. Steel, Bethlehem, Republic, etc.—who, early in the war, had first urged government price-fixing, and they had to prod a sometimes confused government to adopt what eventually became the government's program. The main reason was that the big steel producers, happy at the enormous increase of steel prices in the market as a result of wartime demand, were anxious to stabilize the market at

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<sup>28</sup> Urofsky, *op. cit.*, pp. 153–157. In his important study of business-government relations in the War Industries Board, Professor Robert Cuff has concluded that federal regulation of industry was shaped by big-business leaders, and that relations between government and big business were smoothest in those industries, such as steel, whose industrial leaders had already committed themselves to seeking government-sponsored cartelization. Robert D. Cuff, "Business, Government, and the War Industries Board" (Doctoral dissertation in history, Princeton University, 1966).

<sup>29</sup> Urofsky, *op. cit.*, p. 154.

a high price and thus insure a long-run profit position for the duration of the war. The government-steel industry price-fixing agreement of September, 1917, was therefore hailed by John A. Topping, president of Republic Steel, as follows:

The steel settlement will have a wholesome effect on the steel business because the principle of cooperative regulation has been established with Government approval. Of course, present abnormal profits will be substantially reduced but a runaway market condition has been prevented and prosperity extended. . . . Furthermore, stability in future values should be conserved.<sup>30</sup>

Furthermore, the large steel firms were happy to use the fixed prices as a rationale for imposing controls and stability upon wages, which were also beginning to rise. The smaller steel manufacturers, on the other hand, often with higher costs, and who had not been as prosperous before the war, opposed price-fixing because they wished to take full advantage of the short-run profit bonanza brought about by the war.<sup>31</sup>

Under this regime, the steel industry achieved the highest level of profits in its history, averaging twenty-five percent per year for the two years of war. Some of the smaller steel companies, benefiting from their lower total capitalization, did almost twice as well.<sup>32</sup>

The most thoroughgoing system of price controls during the war was enforced not by the WIB but by the separate Food Administration, over which Herbert Clark Hoover presided as "Food Czar." The official historian of wartime

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<sup>30</sup> In *Iron Age* (September 27, 1917). Quoted in Urofsky, pp. 216-217.

<sup>31</sup> Urofsky, pp. 203-206. Also see Robert D. Cuff and Melvin I. Urofsky, "The Steel Industry and Price-Fixing During World War I," *Business History Review* (Autumn, 1970), pp. 291-306.

<sup>32</sup> Urofsky, *op. cit.*, pp. 228-233.



price control justly wrote that the food control program "was the most important measure for controlling prices which the United States . . . had ever taken."<sup>33</sup>

Herbert Hoover accepted his post shortly after American entry into the war, but only on the condition that he alone have full authority over food, unhampered by boards or commissions. The Food Administration was established without legal authorization, and then a bill backed by Hoover was put through Congress to give the system the full force of law. Hoover was also given the power to requisition "necessaries," to seize plants for government operation, and to regulate or prohibit exchanges.

The key to the Food Administration's system of control was a vast network of *licensing*. Instead of direct control over food, the FA was given the absolute power to issue licenses for any and all divisions of the food industry, and to set the conditions for keeping the license. Every dealer, every manufacturer, distributor, and warehouse of food commodities was required by Hoover to maintain its federal license.

A notable feature introduced by Hoover in his reign as Food Czar was the mobilization of a vast network of citizen volunteers as a mass of eager participants in enforcing his decrees. Thus, Herbert Hoover was perhaps the first American politician to realize the potential—in gaining mass acceptance and in enforcing government decrees—in the mobilizing of masses through a torrent of propaganda to serve as volunteer aides to the government bureaucracy. Mobilization proceeded to the point of inducing the public to brand as a virtual moral leper anyone dissenting from Mr. Hoover's edicts. Thus:

The basis of all . . . control exercised by the Food Administration was the educational work which preceded and accompanied its measures of conservation and regulation. Mr. Hoover was committed thoroughly

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<sup>33</sup> Paul Willard Garrett, *Government Control Over Prices* (Washington, D.C.: Government Printing Office, 1920), p. 42.

to the idea that the most effective method to control foods was to set every man, woman, and child in the country at the business of saving food. . . . The country was literally strewn with millions of pamphlets and leaflets designed to educate the people to the food situation. No war board at Washington was advertised as widely as the U.S. Food Administration. There were Food Administration insignia for the coat lapel, store window, the restaurant, the train, and the home. A real stigma was placed upon the person who was not loyal to Food Administration edicts through pressure by the schools, churches, women's clubs, public libraries, merchants' associations, fraternal organizations, and other social groups.<sup>34</sup>

The method by which the Food Administration imposed price control was its requirement that its licensees should receive "a reasonable margin of profit." This "reasonable margin" was interpreted as a margin over and above each producer's costs, and this cost-plus "reasonable profit" for each dealer became the rule of price control. The program was touted to the public as a means of keeping profits and food prices *down*. Although the Administration certainly wished to stabilize prices, the goal was also and more importantly to *cartelize*. Industry and government worked together to make sure that individual maverick competitors did not get out of line; prices in general were to be set at a level to guarantee a "reasonable" profit to everyone. The goal was not *lower* prices, but uniform, stabilized, non-competitive prices for all. The goal was far more to keep prices *up* than to keep them down. Indeed, any overly greedy competitor who tried to increase his profits above prewar levels by *cutting* his prices, was dealt with most severely by the Food Administration.

Let us consider two of the most important food-control programs during World War I: wheat and sugar. Wheat price control, the most important program, came in the

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<sup>34</sup> Garrett, *op. cit.*, p. 56.

wake of wartime demand, which had pushed wheat prices up very rapidly to their highest level in the history of the United States. Thus, wheat increased by one dollar a bushel in the course of two months at the start of the war, reaching the unheard of price of three dollars a bushel. Control came in the wake of agitation that government must step in to thwart "speculators" by fixing maximum prices on wheat. Yet, under pressure by the agriculturists, the government program fixed *by statute*, not maximum prices for wheat but *minima*; the Food Control Act of 1917 fixed a minimum price of two dollars a bushel for the next year's wheat crop. Not content with this special subsidy, the President proceeded to raise the minimum to two dollars and twenty-six cents a bushel in mid-1918, a figure that was then the precise market price for wheat. This increased minimum effectively fixed the price of wheat for the duration of the war. Thus, the government made sure that the consumers could not possibly benefit from any fall in wheat prices.

To enforce the artificially high price of wheat, Herbert Hoover established the Grain Corporation, "headed by practical grain men," which purchased the bulk of the wheat crop in the United States at the "fair price," and then resold the crop to the nation's flour mills at the same price. To keep the millers happy, the Grain Corporation guaranteed them against any possible losses from unsold stocks of wheat or flour. Moreover, each mill was guaranteed that its relative position in the flour industry would be maintained throughout the war. In this way, the flour industry was successfully cartelized through the instrument of government. Those few mills who balked at the cartel arrangement were dealt with handily by the Food Administration; as Garrett put it: "their operations . . . were reasonably well controlled . . . by the license requirements."<sup>35</sup>

The excessively high prices of wheat and flour also

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<sup>35</sup> *Ibid.*, p. 66.

meant artificially high costs to the bakers. *They*, in turn, were taken under the cozy cartel umbrella by being required, in the name of "conservation," to mix inferior products with wheat flour at a fixed ratio. Each baker was of course delighted to comply with a requirement that he make inferior products, which he knew was also being enforced upon his competitors. Competition was also curtailed by the Food Administration's compulsory standardization of the sizes of bread loaves, and by prohibiting price-cutting through discounts or rebates to particular customers—the classic path toward the internal breakup of any cartel.<sup>36</sup>

In the particular case of sugar, there was a much more sincere effort to keep down prices—due to the fact that the United States was largely an importer rather than a producer of sugar. Herbert Hoover and the Allied governments duly formed an International Sugar Committee, which undertook to buy all of their countries' sugar, largely from Cuba, at an artificially low price, and then to allocate the raw sugar to the various refiners. Thus, the Allied governments functioned as a giant buying cartel to lower the price of their refiners' raw material.

Herbert Hoover instigated the plan for the International Sugar Committee, and the United States government appointed the majority of the five-man committee. As Chairman of the committee, Hoover selected Earl Babst, president of the powerful American Sugar Refining Co., and the other American members also represented refiner interests. The ISC promptly fixed a sharp reduction of the price of sugar: lowering the New York price of Cuban raw sugar from its high market price of six and three-quarter cents per pound in the summer of 1917 to six cents per pound. When the Cubans understandably balked at this artificially forced price reduction of their cash crop, the

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<sup>36</sup> *Ibid.*, p. 73.

United States State Department and the Food Administration collaborated to coerce the Cuban government into agreement. Somehow, the Cubans were unable to obtain import licenses for needed wheat and coal from the United States Food Administration, and the result was a severe shortage of bread, flour, and coal in Cuba. Finally, the Cubans capitulated in mid-January, 1918, and the import licenses from the United States were rapidly forthcoming.<sup>37</sup> Cuba was also induced to prohibit all sugar exports except to the International Sugar Committee.

Apparently, Mr. Babst insured an extra bonus to his American Sugar Refining Company; for, shortly, officials of competing American refineries were to testify before Congress that this company had particularly profited from the activities of the International Sugar Committee and from the price that it fixed on Cuban sugar.<sup>38</sup>

Although the American government pursued with great diligence the goal of pushing down raw material prices for United States refiners, it also realized that it could not force down the price of raw sugar *too* low, since the government had to consider the marginal United States cane and beet-sugar producers, who had to receive their duly appointed "fair return." Jointly to harmonize and subsidize both the sugar refiners *and* the sugar growers in the United States, Mr. Hoover established a Sugar Equalization Board that would simultaneously keep the price of sugar *low* to Cuba while keeping it high enough for the American producers. The Board accomplished this feat by buying the Cuban sugar at the fixed low price and then reselling the crop to the refiners at a higher price to cover the American producers.<sup>39</sup>

The result of the artificially low prices for sugar was, inevitably, to create a severe sugar shortage, by reducing

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<sup>37</sup> See Robert F. Smith, *The United States and Cuba* (New York: Bookman Associates, 1960), pp. 20-21.

<sup>38</sup> Smith, *op. cit.*, p. 191.

<sup>39</sup> Garrett, *op. cit.*, pp. 78-85.

supplies and by stimulating an excessive public consumption. The result was that sugar consumption was then severely restricted by federal rationing of sugar.

It is not surprising that the food industries were delighted with the wartime control program. Expressing the spirit of the entire war-collectivist regime, Herbert Hoover, in the words of Paul Garrett:

maintained, as a cardinal policy from the beginning, a very close and intimate contact with the trade. The men, whom he chose to head his various commodity sections and responsible positions, were in a large measure tradesmen. . . . The determination of the policies of control within each branch of the food industry was made in conference with the tradesmen of that branch. . . . It might be said . . . that the framework of food control, as of raw material control, was built upon agreements with the trade. The enforcement of the agreements once made, moreover, was intrusted in part to the cooperation of constituted trade organizations. The industry itself was made to feel responsible for the enforcement of all rules and regulations.<sup>40</sup>

Also separate from the War Industries Board were the nation's railroads, which received the greatest single ministration of government dictation as compared to any other industry. The railroads, in fact, were seized and operated directly by the federal government.

As soon as the United States entered the war, the Administration urged the railroads to unite as one in behalf of the war effort. The railroads were delighted to comply, and quickly formed what became known as the Railroads' War Board, promising faithfully to pursue a goal that they had long sought in peacetime: to cease competitive activities and to coordinate railroad operations.<sup>41</sup> Daniel Wil-

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<sup>40</sup> *Ibid.*, pp. 55-56.

<sup>41</sup> See K. Austin Kerr, *American Railroad Politics, 1914-1920* (Pittsburgh: University of Pittsburgh Press, 1968), pp. 44 ff.

lard, president of the Baltimore & Ohio Railroad and Bernard Baruch's predecessor as head of the WIB, happily reported that the railroads had agreed to vest their War Board with complete authority to override individual railroad interests. Under its Chairman, Fairfax Harrison of the Southern Railroad, the War Board established a Committee on Car Service to coordinate national car supplies. Aiding the coordination effort was the Interstate Commerce Commission, the longtime federal regulatory body for the railroads. Once again, the government-promoted monopoly was an inspiration to many who were looking ahead to the peacetime economy. For several years the railroads had been agitating for "scientific management" as a means of achieving higher rates from the ICC and a governmentally imposed cartelization; but they had been thwarted by the pressure of the organized shippers, the industrial users of the railroads.

But now even the shippers were impressed. Max Thelen, chairman of the California Railroad Commission, president of the National Association of Railway and Utilities Commissions, and the leading spokesman for the organized shippers, agreed that the critical railroad problem was "duplication," and the "irrational" lack of complete inter-railroad coordination. And Senator Francis G. Newlands (D., Nev.), the most powerful congressman on railroad affairs as the chairman of a joint committee on transportation regulation, opined that the wartime experience was "somewhat shattering on old views regarding antitrust laws."<sup>42</sup>

Soon, however, it became clear that the system of voluntary private coordination was not really working well. Traffic departments of individual roads persisted in competitive practices; the railroad brotherhood unions were persistently demanding substantial wage increases; and the railroads and organized shippers locked horns over railroad demands for an across-the-board rate increase. All groups

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<sup>42</sup> Kerr, *op. cit.*, p. 48.

felt that regional coordination and overall efficiency would best be achieved by outright federal operation of the railroads. The shippers first proposed the scheme as a method of achieving coordination and to forestall higher freight rates; the unions seconded the plan in order to obtain wage increases from the government; and the railroads cheerfully agreed when President Wilson assured them that each road would be guaranteed its 1916/17 profits—two years of unusually high profits for the railroad industry. With the federal government offering to take on the headaches of wartime dislocation and management, while granting the roads a very high guaranteed profit for doing nothing, why shouldn't the railroads leap to agreement?

The most enthusiastic Administration proponent of federal operation of the railroads was Secretary of the Treasury McAdoo, a former New York railroad executive and close associate of the Morgan interests, who in turn were the leading underwriters and owners of railroad bonds. McAdoo was rewarded by being named head of the United States Railroad Administration after Wilson seized the railroads on December 28, 1917.

Federal rule by the Morgan-oriented McAdoo proved to be a bonanza for the nation's railroads. Not only were the railroads now fully monopolized by direct government operation, but also the particular railroad executives now found themselves armed with the coercive power of the federal government. For McAdoo chose as his immediate assistants a group of top railroad executives, and all rate-setting powers of the ICC were shifted to the railroad-dominated Railroad Administration for the duration.<sup>43</sup> The significance of the shift is that the railroads, although

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<sup>43</sup> McAdoo's "cabinet," which assisted him in running the railroads, included Walker D. Hines and Edward Chambers, respectively chairman of the board and vice-president of the Santa Fe R.R.; Henry Walters, chairman of the board of the Atlantic Coast R.R.; Hale Holden, of the Burlington R.R.; A. H. Smith, president of New York Central R.R.; John Barton Payne, formerly chief counsel of the Chicago Great Western R.R.; and



largely responsible for the inception and growth of the ICC as a cartelizing agency for the railroad industry, had seen control of the ICC slip into the hands of the organized shippers in the decade before the war. This had meant that the railroads had found it very difficult to win freight rate increases from the ICC. But now the wartime federal control of the railroads was shunting the shippers aside.<sup>44</sup>

McAdoo's brazen appointment of railroad men to virtually all the leading positions in the Railroad Administration, to the virtual exclusion of shippers and academic economists, greatly angered the shippers, who had launched an intense barrage of criticism of the system by midsummer of 1918. This barrage came to a head when McAdoo increasingly turned the direction of the RA, including the appointment of regional directors, over to his principal assistant, railroad executive Walker D. Hines. Shippers and ICC commissioners complained that

railroad lawyers from the entire country descended on Washington, told their troubles to other railroad lawyers serving on McAdoo's staff, and were "told to go into an adjoining room and dictate what orders they want."<sup>45</sup>

As in the case of the War Industries Board, the railroad executives used their coercive governmental powers to deal a crippling blow to diversity and competition, on behalf of monopoly, in the name of "efficiency" and standardization. Again, over the opposition of shippers, the RA ordered the

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Comptroller of the Currency John Skelton Williams, formerly chairman of the board of the Seaboard R.R. Hines was to be McAdoo's principal assistant; Payne became head of the Law Division of the Railroad Administration; Williams head of Finance and Purchase; and Chambers became head of traffic. The Division of Operation was headed by Carl R. Gray, president of the Western Maryland R.R. One unionist, W. S. Carter, head of the Brotherhood of Firemen and Engineers, was brought in to head the Division of Labor.

<sup>44</sup> Kerr, *op. cit.*, pp. 14-22.

<sup>45</sup> *Ibid.*, p. 80.

compulsory standardization of locomotive and equipment design, eliminated "duplicate" (i.e., competitive) passenger service and coal transportation, shut down off-line traffic offices, and ordered the cessation of competitive solicitation of freight by the railroads.

All of these edicts reduced railroad services to the hapless shippers. There were still other coerced reductions of service. One ended the shippers' privileges of specifying freight routes—and thereby of specifying the *cheapest* routes for shipping their goods. Another upset the peacetime practice of making the railroads liable for losses and damages to shipments; instead, the entire burden of proof was placed upon the shippers. Another RA ruling—the "sailing day plan"—ordered freight cars to remain in their terminals until filled, thus sharply curtailing service to small-town shippers.

The granting of absolute power to the railroad-dominated RA was cemented by the Federal Control Act of March, 1918, which *ex post facto* legalized the illegal federal takeover. Working closely with railroad lobbyists, the RA, backed by the full support of President Wilson, was able to drive through Congress the transfer of rate-making powers to itself from the ICC. Furthermore, all power was taken away from the invariably shipper-dominated state railroad commissions.

The RA hastened to exercise its rate-setting powers, announcing freight rate increases of twenty-five percent across the board in the spring of 1918—an act that permanently cemented shipper hostility to the system of federal operation. To add insult to injury, the new higher rates were set without any public hearings or consultation with other agencies or interests involved.

## II

Historians have generally treated the economic planning of World War I as an isolated episode dictated by the requirements of the day and having little further significance. But,

on the contrary, the war collectivism served as an inspiration and as a model for a mighty army of forces destined to forge the history of twentieth-century America. For big business, the wartime economy was a model of what could be achieved in national coordination and cartelization, in stabilizing production, prices, and profits, in replacing old-fashioned competitive *laissez-faire* by a system that they could broadly control and that would harmonize the claims of various powerful economic groups. It was a system that had already abolished much competitive diversity in the name of standardization. The wartime economy especially galvanized such business leaders as Bernard Baruch and Herbert Hoover, who would promote the cooperative "association" of business trade groups as Secretary of Commerce during the 1920s, an associationism that paved the way for the cooperative statism of Franklin Roosevelt's AAA and NRA.

The wartime collectivism also held forth a model to the nation's liberal intellectuals; for here was seemingly a system that replaced *laissez-faire* not by the rigors and class hatreds of proletarian Marxism, but by a new strong State, planning and organizing the economy in harmony with all leading economic groups. It was, not coincidentally, to be a neomercantilism, a "mixed economy," heavily staffed by these selfsame liberal intellectuals. And finally, both big business and the liberals saw in the wartime model a way to organize and integrate the often unruly labor force as a junior partner in the corporatist system—a force to be disciplined by their own "responsible" leadership of the labor unions.

For the rest of his life, Bernard Mannes Baruch sought to restore the lineaments of the wartime model. Thus, in summing up the experience of the WIB, Baruch extolled the fact that:

many businessmen have experienced during the war, for the first time in their careers, the tremendous advantages, both to themselves and to the general public,

of combination, of cooperation and common action . . .

Baruch called for the continuance of such corporate associations, in "inaugurating rules" to eliminate "waste" (i.e., competition), to exchange trade information, to agree on the channeling of supply and demand among themselves, to avoid "extravagant" forms of competition and to allocate the location of production. Completing the outlines of a corporate state, Baruch urged that such associations be governed by a federal agency, either the Department of Commerce or the Federal Trade Commission

an agency whose duty it should be to encourage, under strict Government supervision, such cooperation and coordination . . .<sup>46</sup>

Baruch also envisioned a federal board for the retraining and channeling of labor after the war. At the very least, he urged standby legislation for price control and for industrial coordination and mobilization in the event of another war.<sup>47</sup>

During the 1920s and 1930s, Bernard Baruch served as a major inspiration of the drive toward a corporate state; moreover, many of the leaders of this drive were men who had served under him during the heady days of the WIB and who continued to function frankly as "Baruch's men" in national affairs. Thus, aided by Baruch, George N. Peek, of the Moline Plow Company, launched in the early 1920s the drive for farm price supports through federally organized farm cartels that was to culminate in President Hoover's Federal Farm Board in 1929 and then in Roosevelt's AAA. Peek's farm equipment business, of course, stood to benefit greatly from farm subsidies. Hoover appointed as first Chairman of the FFB none other than

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<sup>46</sup> Bernard M. Baruch, *American Industry in the War* (New York: Prentice-Hall, 1941), pp. 105-106.

<sup>47</sup> Coit, *op. cit.*, pp. 202-203, 218.

Baruch's old top aide from World War I, Alexander Legge of International Harvester, the leading farm machinery manufacturer. When Franklin Roosevelt created the AAA, he first offered the job of director to Baruch, and then gave the post to Baruch's man, George Peek.

Neither was Baruch laggard in promoting a corporatist system for industry as a whole. In the spring of 1930, Baruch proposed a peacetime reincarnation of the WIB as a "Supreme Court of Industry." In September of the following year, Gerard Swope, head of General Electric and brother of Baruch's closest confidant Herbert Bayard Swope, presented an elaborated plan for a corporate state that essentially revived the system of wartime planning. At the same time, one of Baruch's oldest friends, former Secretary William Gibbs McAdoo, was proposing a similar plan for a "Peace Industries Board." After Hoover dismayed his old associates by rejecting the plan, Franklin Roosevelt embodied it in the NRA, selecting Gerard Swope to help write the final draft, and picking another Baruch disciple and World War aide General Hugh S. Johnson—also of the Moline Plow Company—to direct this major instrument of state corporatism. When Johnson was fired, Baruch himself was offered the post.<sup>48</sup>

Other leading NRA officials were veterans of war mobilization. Johnson's chief of staff was another old friend of Baruch's, John Hancock, who had been Paymaster General of the Navy during the war and had headed the naval industrial program for the War Industries Board; other high officials of the NRA were Dr. Leo Wolman, who had been head of the production-statistics division of the WIB; Charles F. Horner, leader of the wartime Liberty Loan drive; and General Clarence C. Williams, who had been Chief of Ordnance in charge of Army war purchasing. Other WIB veterans highly placed in the New Deal were Isador Lubin, United States Commissioner of Labor Statis-

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<sup>48</sup> *Ibid.*, pp. 440–443.

tics in the New Deal; Captain Leon Henderson of the Ordnance Division of the WIB; and Senator Joseph Guffey (D., Pa.), who had worked in the WIB on conservation of oil, and who helped pattern the oil and coal controls of the New Deal on the wartime Fuel Administration.<sup>49</sup>

Another leading promoter of the new cooperation subsequent to his experience as wartime planner was Herbert Clark Hoover. As soon as the war was over, Hoover set out to "reconstruct America" along the lines of peacetime cooperation. He urged national planning through "voluntary" cooperation among businessmen and other economic groups under the "central direction" of the government. The Federal Reserve System was to allocate capital to essential industries and thereby to eliminate the competitive "wastes" of the free market. And in his term as Secretary of Commerce during the 1920s, Hoover assiduously encouraged the cartelization of industry through trade associations. In addition to inaugurating the modern program of farm price supports in the Federal Farm Board, Hoover urged the coffee buyers to form a cartel to lower buying prices; established a buying cartel in the rubber industry; led the oil industry in working toward restrictions on oil production in the name of "conservation"; tried repeatedly to raise prices, restrict production, and encourage marketing co-ops in the coal industry; and tried to force the cotton textile industry into a nationwide cartel to restrict production. Specifically in furtherance of the wartime abolition of thousands of diverse and competitive products, Hoover continued to impose standardization and "simplification" of materials and products during the 1920s. In this way, Hoover managed to abolish or "simplify" about a thousand industrial products. The "simplification" was worked out by the Department of Commerce

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<sup>49</sup> See William E. Leuchtenburg, "The New Deal and the Analogue of War," in John Braeman *et al.*, eds., *Change and Continuity in Twentieth-Century America* (New York: Harper & Row, 1967), pp. 122-123.

in collaboration with committees from each industry.<sup>50</sup> Grosvenor Clarkson hailed the fact that:

it is probable that there will never again be such a multiplicity of styles and models in machinery and other heavy and costly articles as there was before the restrictions necessitated by the war. . . . The ideas conceived and applied by the War Industries Board in war are being applied in peace by the Department of Commerce. . . .<sup>51</sup>

Not the least of the influential groups dazzled and marked by the experience of war collectivism were the liberal intellectuals. Never before had so many intellectuals and academicians swarmed into government to help plan, regulate, and mobilize the economic system. The intellectuals served as advisers, technicians, framers of legislation, and administrators of bureaus. Furthermore, apart from the rewards of newly acquired prestige and power, the war economy held out to such intellectuals the promise of transforming the society into a "third way" completely different from the laissez-faire past that they scorned or the looming proletarian Marxism that they reviled and feared. Here was a planned corporate economy that seemed to harmonize all groups and classes under a strong and guiding nation-state with the liberals themselves at or near the helm. In a notable article, Professor Leuchtenburg saw the war collectivism as "a logical outgrowth of the Progressive

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<sup>50</sup> See Herbert Hoover, *Memoirs* (New York: Macmillan, 1952), Vol. II, pp. 27, 66–70; on Hoover and the export industries, Joseph Brandes, *Herbert Hoover and Economic Diplomacy* (Pittsburgh: University of Pittsburgh Press, 1962); on the oil industry, Gerald D. Nash, *United States Oil Policy, 1890–1964* (Pittsburgh: University of Pittsburgh Press, 1968); on coal, Ellis W. Hawley, "Secretary Hoover and the Bituminous Coal Problem, 1921–1928," *Business History Review* (Autumn, 1968), pp. 247–270; on cotton textiles, Louis Galambos, *Competition and Cooperation* (Baltimore: Johns Hopkins Press, 1966).

<sup>51</sup> Clarkson, *op. cit.*, pp. 484–485.

movement.”<sup>52</sup> He demonstrated the enthusiasm of the Progressive intellectuals for the social transformation effected by the war. Thus, the *New Republic* hailed the “revolutionizing” of society by means of the war; John Dewey hailed the replacement of production for profit and “the absoluteness of private property” by production for use. Economists were particularly enchanted by the “notable demonstration of the power of war to force concert of effort and collective planning,” and looked for “the same sort of centralized directing now employed to kill their enemies abroad for the new purpose of reconstructing their own life at home.”<sup>53</sup>

Rexford Guy Tugwell, ever alert to the advance of social engineering, was soon to look back wistfully upon “America’s wartime socialism”; lamenting the end of the war, he declared that “only the Armistice prevented a great experiment in control of production, control of price, and control of consumption.” For, during the war, the old system of industrial competition had “melted away in the fierce new heat of nationalistic vision.”<sup>54</sup>

Not merely the NRA and AAA, but virtually the entire New Deal apparatus—including the bringing to Washington of a host of liberal intellectuals and planners—owed its inspiration to the war collectivism of World War I. The Reconstruction Finance Corporation, founded by Hoover in 1932 and expanded by Roosevelt’s New Deal, was a revival and expansion of the old War Finance Corporation, which had loaned government funds to munitions firms. Furthermore, Hoover, after offering the post to Bernard

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<sup>52</sup> Leuchtenburg, *op. cit.*, p. 84*n.*

<sup>53</sup> *Ibid.*, p. 89.

<sup>54</sup> *Ibid.*, pp. 90–92. It was very similar considerations that also brought many liberal intellectuals, especially including those of the *New Republic*, into at least a temporary admiration for Italian fascism. Thus, see John P. Diggins, “Flirtation with Fascism: American Pragmatic Liberals and Mussolini’s Italy,” *American Historical Review* (January, 1966), pp. 487–506.



Baruch, named as first Chairman of the RFC, Eugene Meyer, Jr., an old protégé of Baruch's, who had been managing director of the WFC. Much of the old WFC staff and method of operations were taken over bodily by the new agency. The Tennessee Valley Authority grew out of a wartime government nitrate and electric-power project at Muscle Shoals, and in fact included the old nitrate plant as one of its first assets. Moreover, many of the public power advocates in the New Deal had been trained in such wartime agencies as the Power Section of the Emergency Fleet Corporation. And even the innovative government corporate form of the TVA was based on wartime precedent.<sup>55</sup>

Wartime experience also provided the inspiration for the public housing movement of the New Deal. During the war, the Emergency Fleet Corp. and the United States Housing Corp. were established to provide housing for war workers. The war established the precedent of federal housing, and also trained architects like Robert Kohn, who functioned as chief of production for the housing division of the United States Shipping Board. After the war, Kohn exulted that "the war has put housing 'on the map' in this country"; and in 1933, Kohn was duly named by President Roosevelt to be the director of the New Deal's first venture into public housing. Furthermore, the Emergency Fleet Corp. and the United States Housing Corp. established large-scale public housing communities on planned "garden-city" principles (Yorkship Village, N.J.; Union Park Gardens, Del.; Black Rock and Crane Tracts, Conn.), principles finally remembered and put into effect in the New Deal and afterward.<sup>56</sup>

The oil and coal controls established in the New Deal also rested on the precedent of the wartime Fuel Administration. Indeed, Senator Joseph Guffey (D., Pa.), leader in

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<sup>55</sup> Leuchtenburg, *op. cit.*, pp. 109-110.

<sup>56</sup> *Ibid.*, pp. 111-112.

the coal and oil controls, had been head of the petroleum section of the War Industries Board.

Deeply impressed with the "national unity" and mobilization achieved during the war, the New Deal established the Civilian Conservation Corps to instill the martial spirit in America's youth. The idea was to take the "wandering boys" off the road and "mobilize" them into a new form of American Expeditionary Force. The Army, in fact, ran the CCC camps; CCC recruits were gathered at Army recruiting stations, equipped with World War I clothing, and assembled in army tents. The CCC, the New Dealers exulted, had given a new sense of meaning to the nation's youth, in this new "forestry army." Speaker Henry T. Rainey (D., Ill.) of the House of Representatives put it this way:

They [the CCC recruits] are also under military training and as they come out of it . . . improved in health and developed mentally and physically and are more useful citizens . . . they would furnish a very valuable nucleus for an army.<sup>57</sup>

### III

Particularly good evidence of the deep imprint of war collectivism was the reluctance of many of its leaders to abandon it when the war was finally over. Business leaders pressed for two postwar goals: continuance of government price-fixing to protect them against an expected postwar deflation; and a longer-range attempt to promote industrial cartelization in peacetime. In particular, businessmen wanted the price *maxima* (which had often served as *minima* instead) to be converted simply into outright

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<sup>57</sup> *Ibid.*, p. 117. Roosevelt named union leader Robert Fechner, formerly engaged in war labor work, as director of the CCC to provide a civilian camouflage for the program. P. 115n.

minima for the postwar period. Wartime quotas to restrict production, furthermore, needed only to remain in being to function as a frank cartelizing for raising prices in time of peace.

Accordingly, many of the industrial War Service Committees, and their WIB Section counterparts, urged the continuance of the WIB and its price-fixing system. In particular, section chiefs invariably urged continued price control in those industries that feared postwar deflation, while advocating a return to a free market wherever the specific industry expected a continuing boom. Thus, Professor Himmelberg concluded:

Section chiefs in their recommendations to the Board consistently followed the wishes of their industries in urging protection if the industry expected price declines and release of all controls when the industry expected a favorable postwar market.<sup>58</sup>

Robert S. Brookings, Chairman of the Price-Fixing Committee of the WIB, declared that the WIB would be "as helpful . . . during the reconstruction period as we have during the war period in stabilizing values."<sup>59</sup>

From the big-business world, meanwhile, Harry A. Wheeler, president of the United States Chamber of Commerce, presented to Woodrow Wilson in early October, 1918, an ambitious scheme for a "Reconstruction Commission," to be composed of all the economic interests of the nation.

The WIB itself concurred, and urged the President to allow it to continue after the war. Baruch himself urged upon Wilson the continuation of at least the minimum price-fixing policies of the WIB. However, Baruch was

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<sup>58</sup> Robert F. Himmelberg, "The War Industries Board and the Antitrust Question in November 1918," *Journal of American History* (June, 1965), p. 65.

<sup>59</sup> *Ibid.*

gulling the public when he foresaw a postwar WIB as guarding against both inflation and deflation; there was no inclination to impose maximum prices against inflation.

The great problem with these ambitious plans of both industry and government was President Wilson himself. Perhaps a lingering attachment to the ideals, or at least to the rhetoric, of free competition prevented the President from giving any favorable attention to these postwar schemes.<sup>60</sup> The attachment was particularly nourished by Secretary of War Newton D. Baker, of all Wilson's advisers the closest to a believer in *laissez-faire*. Throughout October, 1918, Wilson rejected all of these proposals. The response of Baruch and the WIB was to put further pressure on Wilson during early November, by publicly predicting and urging that the WIB would definitely be needed during demobilization. Thus *The New York Times* reported, the day after the Armistice, that

War Industries Board officials declared there would be much work for that organization to do. They foresee no serious industrial dislocation with the Government's grip on all war industries and material held tight.<sup>61</sup>

The President remained adamant, however, and on November 23 he ordered the complete disbanding of the WIB by the end of the year. The disappointed WIB officials accepted the decision without protest; partly because of expected congressional opposition to any attempt to continue, partly from the hostility to continued controls by those industries anticipating a boom. Thus, the shoe industry particularly chafed at any continuing controls.<sup>62</sup> The industries favoring controls, however, urged the WIB at

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<sup>60</sup> *Ibid.*, pp. 63-64; Urofsky, *op. cit.*, pp. 298-299.

<sup>61</sup> Quoted in Himmelberg, p. 64.

<sup>62</sup> Favoring continuing price controls were such industries as the chemical, iron and steel, lumber, and finished products generally. Opposing industries included abrasives, automotive products, and newspapers. *Ibid.*, pp. 62, 65, 67.

least to ratify their own price *minima* and agreements for restricting production for the coming winter, and to do so just before the disbandment of the agency. The Board was sorely tempted to engage in this final exploit, and indeed was informed by its legal staff that it could successfully continue such controls beyond the life of the agency even against the will of the President. The WIB, however, reluctantly turned down requests to this effect by the acid, zinc, and steel manufacturers on December 11.<sup>63</sup> It only rejected the price-fixing plans, however, because it feared being overturned by the courts should the Attorney General challenge such a decision.

One of the most ardent advocates of continued WIB price control was the great steel industry. Two days after the Armistice, Judge Gary of U.S. Steel urged the WIB to continue its regulations, and declared that "The members of the steel industry desire to cooperate with each other in every proper way. . . ." Gary urged a three-month extension of price-fixing, with further gradual reductions that would prevent a return to "destructive" competition. Baruch replied that he was personally "willing to go to the very limit," but he was blocked by Wilson's attitude.<sup>64</sup>

If the WIB itself could not continue, perhaps the wartime cartelization could persist in other forms. During November, Arch W. Shaw, Chicago industrialist and head of the Conservation Division of the WIB (whose wartime work in fostering standardization was being transferred to the Department of Commerce) and Secretary of Commerce William Redfield agreed on a bill to allow manufacturers to collaborate in "the adoption of plans for the elimination of needless waste in the public interest," under the supervision of the Federal Trade Commission. When this proposal fizzled, Edwin B. Parker, Priorities Commis-

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<sup>63</sup> Urofsky, *op. cit.*, pp. 306-307.

<sup>64</sup> *Ibid.*, pp. 294-302.

sioner of the WIB, proposed in late November a frankly cartelizing bill that would allow the majority of the firms in any given industry to set production quotas that would have to be obeyed by all the firms in that industry. The Parker plan won the approval of Baruch, Peek, and numerous other government officials and businessmen, but WIB's legal counsel warned that Congress would never give its consent.<sup>65</sup> Another proposal that interested Baruch was advanced by Mark Requa, Assistant Food Administrator, who proposed a United States Board of Trade to encourage and regulate industrial agreements that "promoted the national welfare."<sup>66</sup>

Whatever the reason, Bernard Baruch failed to press hard for these proposals, and so they died on the vine. If Baruch failed to press matters, however, his associate George Peek, head of the Finished Products Division of the WIB, was not so reticent. By mid-December, 1918, Peek wrote Baruch that the postwar era must retain the "benefits of proper cooperation." In particular,

proper legislation should be enacted to permit cooperation in industry, in order that the lessons we have learned during the war may be capitalized . . . in peacetime. . . . Conservation; . . . standardization of products and processes, price fixing under certain conditions, etc., should continue with Government cooperation.<sup>67</sup>

By late December, Peek was proposing legislation for:

some kind of an Emergency Peace Bureau . . . in order that businessmen may, in conjunction with such a Bureau, have an opportunity to meet and cooperate with Governmental cooperation . . .<sup>68</sup>

<sup>65</sup> Himmelberg, *op. cit.*, pp. 70-71.

<sup>66</sup> *Ibid.*, p. 72; Weinstein, *op. cit.*, pp. 231-232.

<sup>67</sup> Himmelberg, *op. cit.*, p. 72.

<sup>68</sup> Robert D. Cuff, "A 'Dollar-a-Year Man' in Government: George N. Peek and the War Industries Board," *Business History Review* (Winter, 1967), p. 417.

The leading business groups endorsed similar plans. In early December, the Chamber of Commerce of the United States called a meeting of the various industrial War Service Committees to convene as a "Reconstruction Congress of American Industry." The Reconstruction Congress called for revision of the Sherman Act to permit "reasonable" trade agreements under a supervisory body. Furthermore, a nationwide Chamber referendum, in early 1919, approved such a proposal by an overwhelming majority; and president Harry Wheeler urged the "cordial acceptance by organized business" of regulation that would ratify business agreements. The National Association of Manufacturers, before the war devoted to competition, warmly endorsed the same goals.

The last gasp of wartime cartelization came in February, 1919, with the establishment by the Department of Commerce of the Industrial Board.<sup>69</sup> Secretary of Commerce William C. Redfield, formerly president of the American Manufacturers Export Association, had long championed the view that government should promote and coordinate industrial cooperation. Redfield saw an entering wedge with the transfer of the WIB's Conservation Division to his department shortly after the Armistice. Redfield continued the wartime stimulation of trade associations, and to that end established an advisory board of former WIB officials. One of these advisers was George Peek; another was Peek's assistant on the WIB, Ohio lumber executive William M. Ritter. It was Ritter, in fact, who originated the idea of the Industrial Board.

The Industrial Board, conceived by Ritter in January, 1919, and enthusiastically adopted and pushed by Secretary Redfield, was a cunning scheme. On its face, and as

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<sup>69</sup> On the Industrial Board, see Robert F. Himmelberg, "Business, Antitrust Policy, and the Industrial Board of the Department of Commerce, 1919," *Business History Review* (Spring, 1968), pp. 1-23.

promoted to President Wilson and to others in the Administration and Congress, the Board was merely a device to secure large price *reductions*, and thereby to lower the inflated level of general prices and to stimulate consumer demand. It was therefore seemingly unrelated to the previous cartelizing drive and hence won the approval of the President, who established the new Board in mid-February. At Ritter's urging, George Peek was named chairman of the IB; other members included Ritter himself; George R. James, head of a major Memphis dry-goods concern and former chief of the Cotton and Cotton Linters section of the WIB; Lewis B. Reed, vice-president of the U.S. Silica Co. and another former assistant to Peek; steel castings manufacturer Samuel P. Bush, former head of the WIB's Facilities Division; Atlanta steel-fabricating manufacturer Thomas Glenn, also a veteran of the WIB; and two "outsiders," one representing the Labor Department and the other the Railroad Administration.

No sooner did the IB get under way than it pursued its real, but previously camouflaged, purpose: not to reduce, but rather to stabilize prices at existing high levels. Moreover, the method of stabilization would be the longed-for but previously rejected path of ratifying industrial price agreements arrived at in collaboration with the Board. Deciding on this cartelizing policy in early March, the IB moved toward the first application in a conference with, unsurprisingly, the steel industry on March 19-20, 1919. Opening the conference, Chairman George Peek grandly declared that the event might prove "epoch-making," especially in establishing "real genuine cooperation between Government, industry, and labor, so that we may eliminate . . . the possibility of the destructive forces . . ." <sup>70</sup> The steel men were of course delighted, hailing the "great chance . . . to come into close contact with the Govern-

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<sup>70</sup> Himmelberg, "Industrial Board," p. 13.



ment itself . . .”<sup>71</sup> The IB told the steel industry that any agreement to sustain prices agreed upon by the conference would be immune from the antitrust laws. Not only was the price list offered by the IB to the steel men still very high even if moderately lower than existing prices; but Peek agreed to announce to the public that steel prices would not be lowered further for the remainder of the year. Peek advised the steel men that his statement would be their biggest asset; for “I don’t know what I wouldn’t have given in times past if in my own business I could say that the government of the United States says this is as low a price as you could get.”<sup>72</sup>

The IB-steel agreement lowered steel prices by a modest ten to fourteen percent. The small, high-cost steel producers were disgruntled, but the big steel firms welcomed the agreement as a coordinated, orderly reduction of inflated prices, and especially welcomed the Board’s guarantee of the fixed price for the remainder of the year.

The elated IB proceeded with similar conferences for the coal and building materials industries, but two dark clouds promptly appeared: the refusal of the government’s own Railroad Administration to pay the fixed, agreed-upon, price for steel rails and for coal; and the concern of the Justice Department for the evident violation of the anti-trust laws. The railroad men running the RA particularly balked at the reduced but still high price that they were going to be forced to pay for steel rails—at a rate that they declared was at least two dollars per ton above the free-market price. Walker D. Hines, head of the RA, denounced the IB as a price-fixing agency, dominated by steel

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<sup>71</sup> Professor Urofsky surmised from the orderly and very moderate price reductions in steel during the first months of 1919 that Robert S. Brookings had quietly given the steel industry the green light to proceed with its own price-fixing. Urofsky, *op. cit.*, pp. 307–308.

<sup>72</sup> Himmelberg, “Industrial Board,” p. 14*n*.

and other industries, and he called for the abolition of the Industrial Board. This call was seconded by the powerful Secretary of the Treasury Carter Glass. The Attorney General concurred that the IB's policy was illegal price-fixing, and in violation of the antitrust laws. Finally, President Wilson dissolved the Industrial Board in early May, 1919; wartime industrial planning had at last been dissolved, its formal cartelization to reappear a decade and a half later.

Yet remnants of wartime collectivism still remained. The high wartime minimum wheat price of two dollars and twenty-six cents a bushel was carried over to the 1919 crop, continuing until June, 1920. But the most important carry-over of war collectivism was the Railroad Administration: the government's operation of the nation's railroads. When William Gibbs McAdoo resigned as head of the RA at the end of the war, he was succeeded by the previous *de facto* operating head, railroad executive Walker D. Hines. There was no call for immediate return to private operation, because the railroad industry generally agreed upon drastic regulation to curb or eliminate "wasteful" railroad competition and coordinate the industry, to fix prices to insure a "fair profit," and to outlaw strikes through compulsory arbitration. This was the overall thrust of railroad sentiment. Furthermore, being in effective control of the RA, the roads were in no hurry to return to private operation and jurisdiction by the less reliable ICC. Although McAdoo's plan to postpone by five years the given 1920 date for return to private operation gained little support, Congress proceeded to use its time during 1919 to tighten the monopolization of the railroads.

In the name of "scientific management," Senator Albert Cummins (R., Iowa) proceeded to grant the railroads' fondest dreams. Cummins' bill, warmly approved by Hines and railroad executive Daniel Willard, ordered the consolidation of numerous railroads, and would set the railroad

rates according to a "fair," fixed return on capital investment. Strikes would be outlawed, and all labor disputes settled by compulsory arbitration. For their part, the Association of Railroad Executives submitted a legislative plan similar to the Cummins Bill. Also similar to the Cummins Bill was the proposal of the National Association of Owners of Railroad Securities, a group composed largely of savings banks and insurance companies. In contrast to these plans, the Citizens National Railroad League, consisting of individual railroad investors, proposed coerced consolidation into one national railroad corporation, and the guaranteeing of minimum earnings to this new road.

All of these plans were designed to tip the prewar balance sharply in favor of the railroads and against the shippers, and, as a result, the Cummins Bill, in passing the Senate, ran into trouble in the House. The trouble was fomented by the shippers, who demanded a return to the status quo ante when the shipper-dominated ICC was in charge. Furthermore, for their part the wartime experience had embittered the shippers, who, along with the ICC itself, demanded a return to the higher quality service provided by railroad competition rather than the increased monopolization provided by the various railroad bills. Unsurprisingly, however, one of the leading nonrailroad business groups favoring the Cummins Bill was the Railway Business Association, a group of manufacturers and distributors of railroad supplies and equipment. The House of Representatives, in its turn, passed the Esch Bill, which essentially reestablished the prewar rule of the ICC.

President Wilson had put pressure on Congress to make a decision by threatening the return of the railroads to private operation by the given date of January 1, 1920, but, under pressure of the railroads who were anxious to push the Cummins Bill, Wilson extended the deadline to March 1. Finally, the joint conference committee of Congress reported out the Transportation Act of 1920, a compromise that was essentially the Esch Bill returning the

railroads to the prewar ICC, but adding the Cummins provisions for a two-year guarantee to the railroads to set rates providing a "fair return" of five and a half percent on investment. Furthermore, on the agreement of both shippers and the roads, the power to set *minimum* railroad rates was now granted to the ICC. This agreement was the product of railroads eager to set a floor under freight rates, and shippers anxious to protect budding canal transportation against railroad competition. Furthermore, although railway union objections blocked the provision for the outlawing of strikes, a Railroad Labor Board was established to try to settle labor disputes.<sup>73</sup>

With the return of the railroads to private operation in March, 1920, war collectivism finally and at long last seemed to pass from the American scene. But pass it never really did; for the inspiration and the model that it furnished for a corporate state in America continued to guide Herbert Hoover and other leaders in the 1920s, and was to return full-blown in the New Deal, and in the World War II economy. In fact, it supplied the broad outlines for the Corporate Monopoly State that the New Deal was to establish, seemingly permanently, in the United States of America.

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<sup>73</sup> On the maneuvering leading to the Transportation Act of 1920, see Kerr, *op. cit.*, pp. 128-227.

# Herbert Hoover and the Myth of Laissez-Faire

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MURRAY N. ROTHBARD

The conventional wisdom, of historian and layman alike, pictures Herbert Hoover as the last stubborn guardian of laissez-faire in America. The laissez-faire economy, so this wisdom runs, produced the Great Depression in 1929, and Hoover's traditional, do-nothing policies could not stem the tide. Hence, Hoover and his hidebound policies were swept away, and Franklin Roosevelt entered to bring to America a New Deal, a new progressive economy of state regulation and intervention fit for the modern age.

The major theme of this paper is that this conventional historical view is pure mythology and that the facts are virtually the reverse: that Herbert Hoover, far from being an advocate of laissez-faire, was in every way the precursor of Roosevelt and the New Deal, that, in short, he was one of the major leaders of the twentieth-century shift from relatively laissez-faire capitalism to the modern corporate state. In the terminology of William A. Williams and the New Left, Hoover was a preeminent "corporate liberal."

When Herbert Hoover returned to the United States in late 1919, fresh from his post as Relief Administrator in Europe, he came armed with a suggested "Reconstruction Program" for America. The program sketched the outlines

of a corporate state; there was to be national planning through "voluntary" cooperation among businesses and groups under "central direction."<sup>1</sup> The Federal Reserve System was to allocate capital to essential industries and thereby eliminate the industrial "waste" of free markets. Hoover's plan also included the creation of public dams, the improvement of waterways, a federal home-loan banking system, the promotion of unions and collective bargaining, and governmental regulation of the stock market to eliminate "vicious speculation."<sup>2</sup> It is no wonder that Progressive Republicans as well as such Progressive Democrats as Louis Brandeis, Herbert Croly, and others on the *New Republic*, Edward A. Filene, Colonel Edward M. House, and Franklin D. Roosevelt, boomed Hoover for the presidency during the 1920 campaign.

Hoover was appointed Secretary of Commerce by President Harding under pressure by the Progressive wing of the party, and accepted under the condition that he would be consulted on all the economic activities of the federal government. He thereupon set out deliberately to "reconstruct America."<sup>3</sup>

Hoover was only thwarted from breaking the firm American tradition of laissez-faire during a depression by the fact that the severe but short-lived depression of 1920-21 was over soon after he took office. He also faced some reluctance on the part of Harding and the Cabinet.

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<sup>1</sup> Hoover's earlier career confirms this appraisal of his views; there is no space here, however, to analyze his earlier ideas and activities.

<sup>2</sup> See Joseph Dorfman, *The Economic Mind in American Civilization* (New York: Viking Press, 1959), Vol. IV, pp. 26-28; Herbert Hoover, *Memoirs* (New York: Macmillan, 1952), Vol. II, pp. 27 ff; and Murray N. Rothbard, *America's Great Depression* (Princeton: D. Van Nostrand, 1963), p. 170 and Part III.

<sup>3</sup> Hoover to Professor Wesley C. Mitchell, July 29, 1921. Lucy Sprague Mitchell, *Two Lives* (New York: Simon and Schuster, 1953), p. 364.

As it was, however, Hoover organized a federal committee on unemployment, which supplied unemployment relief through branches and subbranches to every state, and in numerous cities and local communities. Furthermore, Hoover organized the various federal, state, and municipal governments to increase public works, and persuaded the biggest business firms, such as Standard Oil of New Jersey and United States Steel, to increase their expenditure on repairs and construction. He also persuaded employers to spread unemployment by cutting hours for all workers instead of discharging the marginal workers—an action he was to repeat in the 1929 Depression.<sup>4</sup>

Hoover called for these interventionist measures with an analogy from the institutions of wartime planning and collaboration, urging that Americans develop “the same spirit of spontaneous cooperation in every community for reconstruction that we had in war.”<sup>5</sup>

An important harbinger for Hoover’s later Depression policies was the President’s Conference on Unemployment, a gathering of eminent leaders of industry, banking, and labor called by President Harding in the fall of 1921 at the instigation of Hoover. In contrast to Harding’s address affirming laissez-faire as the proper method of dealing with depressions, Hoover’s opening address to the Conference called for active intervention.<sup>6</sup> Furthermore, the Conference’s major recommendation—for coordinated federal-state expansion of public works to remedy depressions—

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<sup>4</sup> Hoover, *Memoirs*, Vol. II, p. 46; and Joseph H. McMullen, “The President’s Unemployment Conference of 1921 and Its Results” (Master’s thesis, Columbia University, 1922), p. 33.

<sup>5</sup> On the lasting significance of government economic planning and “war collectivism” during World War I, see William E. Leuchtenburg, “The New Deal and the Analogue of War,” in J. Braeman, R. H. Bremner, and E. Walters, eds., *Change and Continuity in Twentieth-Century America* (New York: Harper and Row, 1967), pp. 81–143.

<sup>6</sup> See E. Jay Howenstine, Jr., “Public Works Policy in the Twenties,” *Social Research* (December, 1946), pp. 479–500.

was prepared by Hoover and his staff in advance of the conference.<sup>7</sup> Of particular importance was the provision that public works and public relief were to be supplied only at the *usual* wage rate—a method of trying to maintain the high wage rates of the preceding boom during a depression.

Although these interventions did not have time to take hold in the 1921 depression, a precedent for federal intervention in an economic depression had now been set, as one of Hoover's admiring biographers writes, "rather to the horror of conservatives."<sup>8</sup>

The President's Conference established three permanent research committees, headed overall by Hoover, which continued during the 1920s to publish studies advocating public-works stabilization during depressions. One such book, *Seasonal Operations in the Construction Industry* (Washington, D.C.: Conference on Unemployment,

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<sup>7</sup> Playing a crucial role on this staff was Otto Tod Mallery, the nation's leading advocate of public works as a remedy for depressions. Mallery had inspired the nation's first such stabilization program, in Pennsylvania in 1917, and had been a leading official on public works in the Wilson Administration. He was also a leader in the American Association for Labor Legislation, an influential group of eminent citizens, businessmen, and economists devoted to government intervention in the fields of labor, employment, and welfare. The AALL, endorsing the Conference, boasted that the Conference's proposals followed the pattern of its own recommendations, which had been formulated as far back as 1915. Apart from Mallery, the Conference employed the services of nine economists who were also officials of the AALL.

The AALL singled out for particular praise Joseph H. De-frees, of the U.S. Chamber of Commerce, who appealed to business organizations to cooperate with the Conference's program, and to accept "business responsibility" for the unemployment problem.

See Dorfman, *op. cit.*, pp. 7-8; McMullen, *op. cit.*, p. 16; and John B. Andrews, "The President's Unemployment Conference—Success or Failure?" *American Labor Legislation Review* (December, 1921), pp. 307-310.

<sup>8</sup> Eugene Lyons, *Our Unknown Ex-President* (New York: Doubleday and Co., 1948), p. 230.



1921), the foreword to which was written by Hoover, urged seasonal stabilization of construction. This study was in part the result of a period of propaganda emitted by the American Construction Council, a trade association for the construction industry, which of course was enthusiastic about large-scale programs of government contracts for the construction industry. This Council was founded jointly by Herbert Hoover and Franklin D. Roosevelt in the summer of 1922, with the aim of stabilizing and cartelizing the industry, and of planning the entire construction industry through the imposition of various codes of "ethics" and of "fair practice." The codes were the particular idea of Herbert Hoover. Following the path of all would-be cartelists who are hostile to no one more than the individualistic competitor, Franklin D. Roosevelt, President of the American Construction Council, took repeated opportunity to denounce rugged individualism and profit-seeking by individuals.<sup>9</sup>

Throughout the 1920s Hoover supported numerous bills in Congress for public-works programs during depressions. He was backed in these endeavors by the American Federation of Labor, the United States Chamber of Commerce, and the American Engineering Council, of which Hoover was for a time president. It was clear that the engineering profession would also benefit greatly from government subsidization of the construction industry. By the middle twenties, President Coolidge, Secretary Mellon, and the National Democratic Party had been converted to the scheme, but Congress was not yet convinced.

After he was elected President, but before taking office, Hoover allowed his public-works plan (the "Hoover Plan") to be presented to the Conference of Governors in late 1928 by Governor Ralph Owen Brewster of Maine.

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<sup>9</sup> See Daniel Fusfeld, *The Economic Thought of Franklin D. Roosevelt and the Origins of the New Deal* (New York: Columbia University Press, 1956), pp. 102 ff.

Brewster called the plan the "Road to Plenty," a name that Hoover had taken from Foster and Catchings,<sup>10</sup> the popular coauthors of a plan for massive inflation and public works as the way to end depressions. Although seven or eight governors were enthusiastic about the plan, the Governors' Conference tabled the scheme. A large part of the press hailed the plan extravagantly as a "pact to outlaw depression." Leading the applause was William Green, head of the AF of L, who hailed the plan as the most important announcement on wages and employment in a decade, and John P. Frey of the AF of L who announced that Hoover had accepted the AF of L theory that depressions are caused by low wages. The press reported that "labor is jubilant" because the new President's remedy for unemployment is "identical with that of labor."

The close connection between Hoover and the labor leadership was no isolated phenomenon. Hoover had long agitated for industry to encourage and incorporate labor unionism within the framework of the emerging industrial order. Moreover, he played a crucial role in converting the

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<sup>10</sup> Waddill Catchings was a prominent investment banker who founded the Pollak Foundation for Economic Research, with Dr. William T. Foster as director, Foster was Brewster's technical advisor at the Governor's Conference. Foster and Catchings had called for a \$3 billion public-works program to iron out the business cycle and stabilize the price level. William T. Foster and Waddill Catchings, *The Road to Plenty* (Boston: Houghton Mifflin & Co., 1928), p. 187. Brewster's presentation can be found in Ralph Owen Brewster, "Footprints on the Road to Plenty—A Three Billion Dollar Fund to Stabilize Business," *Commercial and Financial Chronicle* (November 28, 1928), p. 2,527.

Foster and Catchings reciprocated by praising the "Hoover Plan" a few months later. The Plan, they exulted, would iron out prices and the business cycle; "it is business guided by measurement instead of hunches. It is economics for an age of science—economics worthy of the new President." William T. Foster and Waddill Catchings, "Mr. Hoover's Plan: What It Is and What It Is Not—the New Attack on Poverty," *Review of Reviews* (April, 1929), pp. 77–78.

labor leaders themselves to the idea of a corporate state with unions as junior partners in the system, a state that would organize and harmonize labor and capital.

Hoover's pro-union views first achieved prominence when, as chairman of President Wilson's Second Industrial Conference (1919/20), he guided this conference of corporate-liberal industrialists and labor leaders to criticize "company unionism" and to urge the expansion of collective bargaining, government arbitration boards for labor disputes, and a program of national health and old-age insurance. Soon afterward Hoover arranged a meeting of leading industrialists with "advanced views," in an unsuccessful attempt to persuade them to "establish liaison" with the AF of L. In January, 1921, the AF of L journal published a significant address by Hoover, which called for the "definite organization of great national associations" of economic groups and their mutual cooperation. This cooperation would serve to promote efficiency, and mitigate labor-management conflict. Above all, workers would be protected from "the unfair competition of the sweatshop." Still more did this mean "protection" of the lower-cost large employers from the competition of their smaller "sweatshop" rivals—a typical instance of monopolizers using humanitarian rhetoric to gain public support for the restriction and suppression of competition. Hoover went so far in this address as to support the closed shop, provided that the closure was to be for the sake of unity of purpose in aiding the employer to increase production and to mold a cooperative labor force. In conclusion, Hoover called for a new economic system, what was in effect a corporate state, that would provide an alternative to old-fashioned laissez-faire capitalism on the one hand and Marxian socialism on the other.<sup>11</sup>

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<sup>11</sup> Herbert Hoover, "A Plea for Cooperation," *The American Federationist* (January, 1921). Also see the important work by Ronald Radosh, "The Development of the Corporate Ideology of American Labor Leaders, 1914-1933" (Doctoral dissertation in history, University of Wisconsin, 1967), pp. 82 ff.

In an authoritative study, William English Walling, an intimate of Samuel Gompers, wrote of the crucial influence of Hoover's theories upon Gompers and the AF of L, especially from 1920 on. This influence was particularly strong in persuading the labor leaders to endorse the idea of organizing all the large occupation groups and then effecting their mutual harmony and cooperation under the aegis and control of the federal government. Capital and labor in each industry, organized in collaboration, were to have the role of government of that particular industry.<sup>12</sup> It was indeed appropriate for the French politician Edouard Herriot to praise Hoover in 1920 for his idea of fusing the "economic trinity" of labor, capital, and government into one system, thus putting an end to the class struggle.<sup>13</sup>

Another reason for Hoover's pro-union attitude was that he had adopted the increasingly popular thesis that high wage rates were a major cause of prosperity. It then followed that wage rates must not be lowered during depressions. In contrast to all prior depressions, including 1920-21, when wage rates were cut sharply, wage-cutting was considered by Hoover to be impermissible and as leading to a failure in purchasing power and the perpetuation of depression. These views were to prove a fateful harbinger of the policies used during the Great Depression.

One of Hoover's most important labor interventions during the 1920s came in the steel industry. He persuaded

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<sup>12</sup> William English Walling, *American Labor and American Democracy* (New York: Harper & Bros., 1926), Vol. II: *Labor and Government*, cited in Radosh, *op. cit.*, pp. 85 ff. Addressing the International Association of Technical Engineers, Architects and Draftsmen in May, 1921, Gompers spoke enthusiastically of the close "entente" that had developed between engineering groups and the AF of L. It was Gompers, furthermore, who persuaded Hoover to accept the presidency of the American Engineering Council.

<sup>13</sup> Radosh, *op. cit.*, p. 88n.

Harding to hold a conference of steel manufacturers in May, 1922, after which he and Harding called upon the steel magnates to bow to the workers' demand to shift from a twelve-hour to an eight-hour day. In doing so, Hoover was siding with the liberal wing of the steel industry, led by Charles R. Hook and Alexander Legge, whose plants had already instituted the shorter workday, and who of course were anxious to impose higher costs on their lagging competitors. When Judge Gary of United States Steel and other leading steelmen refused to go along, Hoover acted to mobilize public opinion against them. Thus, he induced the national engineering societies to endorse the eight-hour day, and himself wrote the introduction to the endorsement. Finally, Hoover wrote a stern letter of rebuke for President Harding, which Harding sent to Gary on June 18, 1923, forcing Gary to capitulate.

Herbert Hoover also played a leading role in collectivizing labor relations in the railroad industry, thereby cartelizing that industry still further than before and incorporating railway unions within the cartel framework. After repeated and largely unsuccessful interventions to try to gain pro-union concessions during the railroad strike of 1922, Hoover became a major author—along with union lawyers Donald Richberg and David E. Lilienthal—of the Railway Labor Act of 1926, by which the railway unions got themselves established in the industry. The ancestor of the New Deal's Wagner Act, the Railway Labor Act, imposed collective bargaining upon the industry; in return, the unions agreed to give up the strike weapon. The great majority of the railroads warmly supported this new departure in American labor relations.<sup>14</sup>

In a major address before the United States Chamber of Commerce, on May 7, 1924, Hoover spelled out his

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<sup>14</sup> For a pro-union account of the affair by a leading participant, see Donald R. Richberg, *Labor Union Monopoly* (Chicago: Henry Regnery, 1957), pp. 3–28.

corporatist views in some detail. He called for the self-regulation of industry by way of trade associations, farm groups, and unions. In a vein strongly reminiscent of English Guild Socialism, Hoover harked back to the Middle Ages for his model: the guilds, he asserted, obtained "more stability through collective action." The job of the associations was to strengthen "ethical standards" in industry by eliminating "waste" and "destructive competition." In short, Hoover was calling for the national cartelization of industry under the aegis of government.<sup>15</sup> Samuel Gompers hailed the address and considered this "new economic policy" to be the same as the newly forged position of the AF of L.<sup>16</sup>

Herbert Hoover's entire program of activities as Secretary of Commerce was designed to advance the subsidization of industry and the interpenetration of government and business. As Hoover's admirer and former head of the United States Chamber of Commerce put it, Hoover had advanced the "teamplay of government with the leaders of character in the various industries."<sup>17</sup> Thus, Hoover ex-

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<sup>15</sup> In his book *American Individualism*, Hoover had hailed the growing "cooperation" and "associational activities" of American industry and the consequent reduction of "great wastes of over-reckless competition." Hoover, *American Individualism* (New York: Doubleday, 1922).

<sup>16</sup> Samuel Gompers, "The Road to Industrial Democracy," *American Federationist* (June, 1921). Also see Ronald Radosh, "The Corporate Ideology of American Labor Leaders from Gompers to Hillman," *Studies on the Left* (November-December, 1966), p. 70. After Gompers' death in 1924, his successor, William Green, continued the close AF of L collaboration with Hoover. See Radosh, *The Development of Corporate Ideology*, pp. 201 ff.

<sup>17</sup> Julius H. Barnes, "Herbert Hoover's Priceless Work in Washington," *Industrial Management* (April, 1926), pp. 196-197. Also see Joseph Brandes, *Herbert Hoover and Economic Diplomacy* (Pittsburgh: University of Pittsburgh Press, 1962), p. 3.

panded the Bureau of Foreign and Domestic Commerce fivefold, opening numerous offices at home and abroad. His trade commissioners and attachés aided American exports in numerous ways. He also reorganized the Bureau along commodity lines, with each commodity division headed by someone chosen by the particular trade or industry, from the trade "he knows and represents."<sup>18</sup> Furthermore, Hoover promoted the cartelization of each industry by inducing each trade to create a committee to cooperate with the Department of Commerce, and to select the industry's choice for head of the commodity division. Officials in the Department were systematically recruited from business, to stay in the Department for a few years, and then to return to private business at higher-paying jobs.

One favorite method of Hoover's for subsidizing as well as cartelizing exports was to foster the creation of export-trade associations. Thus, in 1926, Hoover repeatedly urged the coffee trade to band together and create a National Coffee Council, so that all American coffee buyers could join together to lower buying prices. Hoover and his aides craftily suggested to the coffee trade that one union leader and one woman consumer be named to the proposed Coffee Council as a public-relations device to relieve public fears of a cartel.<sup>19</sup>

The difficulties of forming a coffee cartel proved insurmountable; but Hoover had more luck with the rubber industry, organizing it to fight British cartel restrictions on Asian rubber production that had been imposed in 1922. Hoover led the rubber industry in a drive to induce Americans to buy less rubber and hence to lower the price, as well as to promote American-owned sources of supply, by such means as government subsidies to new United States-

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<sup>18</sup> Brandes, *op. cit.*, p. 5.

<sup>19</sup> *Ibid.*, pp. 17-18, 132-139.

owned rubber plantations in the Philippines.<sup>20</sup> An American rubber-buying pool was established in 1926, and lasted until the end of British restrictions two years later.<sup>21</sup>

As soon as he assumed office, Hoover induced President Harding to pressure investment bankers to require that the proceeds of their loans abroad be used to purchase American exports. When little came of this pressure, Hoover began to threaten congressional action if the banks did not agree. For Hoover, the aim of subsidizing exports was so important that even unsound foreign loans that could serve this purpose were considered worthwhile.<sup>22</sup>

Hoover's opposition to foreign "monopoly" did not of course prevent him from supporting a protective tariff in the United States, thus providing privilege to American domestic as well as export firms. During the 1920s, Hoover was also active in promoting the cartelization of the domestic oil industry. As an active member of President Coolidge's Federal Oil Conservation Board since its in-

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<sup>20</sup> On Hoover's repeated urging of American oil companies to join in the development of petroleum in Mesopotamia, see Gerald D. Nash, *United States Oil Policy, 1890-1964* (Pittsburgh: Pittsburgh University Press, 1968), pp. 56-57.

<sup>21</sup> Harvey Firestone was the most enthusiastic rubber user backing the Hoover program, and also in organizing American-owned rubber plantations in Liberia. The mighty U.S. Rubber Co., on the other hand, already owned large rubber plantations in the Dutch East Indies, which were not subject to British restrictions. U.S. Rubber was therefore the rubber user least enthusiastic about the buying pool. Brandes, *op. cit.*, pp. 84-128. On Firestone's acquisition of Liberian land, see Frank Chalk, "The Anatomy of an Investment: Firestone's 1927 Loan to Liberia," *Canadian Journal of African Studies* (March, 1967), pp. 12-32.

<sup>22</sup> See Jacob Viner, "Political Aspects of International Finance, Part II," *Journal of Business* (July, 1928), p. 339; Hoover, *Memoirs*, Vol. II, p. 90. Also see Brandes, *op. cit.*, pp. 170-191. Hoover also clashed with banks that made foreign loans to Germany, since he was worried about the loans building up competitors to American firms, especially chemical manufacturers. *Ibid.*, pp. 192-195.



ception in 1924, Hoover worked in collaboration with a growing majority of the oil industry in behalf of restrictions on oil production in the name of "conservation." This was a "conservation," by the way, that was urged regardless of whether American oil resources seemed to be scarce or superabundant. Hoover was particularly interested in removing antitrust limitations on industrial cooperation in such restrictive measures.<sup>23</sup>

In the field of coal, Hoover sponsored repeated attempts at cartelization. The first attempt was a bill in 1921 to establish a federal coal commission to gather and publish statistics of the coal industry, so as to publicize price data and thereby facilitate industry-wide price-fixing. Failing a commission, the Department of Commerce was eager to take on the task. However, this and a later scheme by Hoover to encourage marketing cooperatives in coal by exemption from antitrust laws, were defeated by the opposition of competitive low-cost Southern coal operators. Undaunted, Hoover, in 1922, prepared a full-fledged cartelizing plan. The idea was to establish unemployment insurance in the coal industry, so designed as to penalize in the cost of the plan the part-time and seasonal coal mines, and thereby to drive these higher-cost mines out of business. The coal industry would then form cooperatives, which would fix and allocate quotas on production, putting more mines out of operation, the owners to be compensated out of the increased cartel profits made by the rest of the industry. The district coal cooperatives were to market all the coal and then divide the revenues proportionately. But once again Hoover could not command the needed support from the coal industry and the public.<sup>24</sup>

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<sup>23</sup> Nash, *op. cit.*, pp. 81-97.

<sup>24</sup> See Ellis W. Hawley, "Secretary Hoover and the Bituminous Coal Problem, 1921-1928," *Business History Review* (Autumn, 1968), pp. 247-270. Also see Hoover, *Memoirs*, Vol. II, p. 70. During the coal strike in the spring of 1922, Hoover organized an emergency system of rationing and price controls.

Hoover played a similar role in cartelizing the cotton textile industry. Favoring the "open-price" plan for stimulating price agreements, Hoover used his Department of Commerce to provide the price publicity that might be illegal for a trade association. Hoover also played a role in forcing the cotton textile industry to establish a nationwide rather than a regional trade association, to the delight of the bulk of the industry. Hoover repeatedly urged the many reluctant firms to join this Cotton Textile Institute, which gave promise of stabilizing the industry and eliminating "waste" in production. Hoover went so far as to endorse, in 1927, the CTI's plan to urge each of the member firms to cut production by a certain definite amount.<sup>25</sup>

One of the clearest indications of how far removed Hoover was from laissez-faire was his leading role in nationalizing the airwaves of the fledgling radio industry. Hoover put through the nationalizing Radio Act in 1927 as a substitute for the courts' increasing application of the common law, granting private ownership of the airwaves to the first radio stations that put them into use.<sup>26</sup>

One of the most pervasive and least studied methods by which Hoover helped to monopolize industry during the

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Harking back to his wartime experience, he established a network of district committees to hold down coal prices. After the typically Hooverian "voluntary" controls failed to work, Hoover called for governmental price-fixing, and by late September, Congress had passed a law appointing a Federal Fuel Distributor to enforce "fair prices."

<sup>25</sup> Louis Galambos, *Competition and Cooperation* (Baltimore: Johns Hopkins Press, 1966), pp. 78-83, 102-103, 108, 114-115, 123, 128-129. The cotton textile industry urged Secretary Hoover to become the first president of their new Institute; as it was, the president was a man recommended by Hoover.

<sup>26</sup> See in particular Ronald H. Coase, "The Federal Communications Commission," *Journal of Law and Economics* (October, 1959), pp. 30 ff. Also see Hoover, *Memoirs*, Vol. II, pp. 139-142.

1920s was to impose standardization and "simplification" of materials and products. In this way, Hoover managed to eliminate the "least necessary" varieties of a myriad of products, greatly reducing the number of competitive sizes, for example, of automobile wheels and tires, and threads for nuts and bolts. All in all, about three thousand articles were thus "simplified." The recommendations for simplification were worked out by the Department of Commerce with the aid of the eager committees representing each trade.<sup>27</sup>

Hoover's approach to the farm question was consistent: a repeated emphasis on the cartelization of agriculture.<sup>28</sup> At first, the favored means was the subsidizing by government of farm cooperatives. Hoover helped write the act of August, 1921, which expanded the funds allotted to the War Finance Corporation and permitted it to lend directly to the farm co-ops. He also supported the farm-bloc bill for an extensive system of Federal Intermediate Credit Banks and a Federal Farm Loan Board, which were to lend federal funds to farm co-ops. In the Department of Commerce, he was able to help farm co-ops with marketing programs, and with aid in finding export markets.

Hoover soon enlarged his ideas of farm intervention; he was one of the earliest proponents of a Federal Farm Board, designed to raise and support farm prices by creating federal stabilization corporations that were to purchase farm products and to lend money to farm co-ops for such purchases. And to this end, in 1924, Hoover helped write the unsuccessful Capper-Williams Bill. As a presiden-

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<sup>27</sup> Hoover, *Memoirs*, Vol. II, pp. 66-68.

<sup>28</sup> In the case of salmon fishing, Hoover called for federal regulations from 1922 on. In that year he induced Harding to create salmon reservations in Alaska, thus cutting salmon production and raising prices. See Donald C. Swain, *Federal Conservation Policy, 1921-1933* (Berkeley: University of California Press, 1963), pp. 25 ff.

tial candidate in 1928 he promised the farm bloc that he would promptly institute a farm price-support program.<sup>29</sup> It was a promise that he hastened to keep, for as soon as he became President, Hoover drove through the Agricultural Marketing Act of 1929. This Act created a Federal Farm Board with a revolving fund of \$500 million to raise and support farm prices and to aid farm co-ops; the Board was to conduct its price-raising operations through stabilization corporations for the various commodities, with the corporations also serving as marketing agencies for the co-ops. Furthermore, Hoover appointed to the Board representatives of the various agricultural and farm co-op interests: a cartelization operated by the cartelists themselves.<sup>30</sup>

Mobilizer and economic planner of World War I; persistent advocate of cartelization and government-business partnership in stabilizing industry; pioneer in promoting a

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<sup>29</sup> It was not only the farm bloc that wanted a nationally cartelized agriculture. Two of the fathers of the agitation for farm price support were George N. Peek and General Hugh S. Johnson, heads of the Moline Plow Company, one of the largest farm-equipment manufacturers. As such they were directly interested in the subsidizing of farmers. Big business in general was also enthusiastic, the farm price-support plan being warmly supported by the Business Men's Commission on Agriculture, established jointly by the U.S. Chamber of Commerce and the National Industrial Conference Board. See Dorfman, *op. cit.*, Vol. IV, pp. 79-80.

<sup>30</sup> Chairman of the eight-man FFB was Alexander Legge, president of International Harvester Co., one of the major farm-machinery manufacturers, and like Peek and Johnson, a protégé of financier Bernard M. Baruch since the days of the economic planning of World War I. Others represented on the Board were the tobacco co-ops, the livestock co-ops, the Midwest grain interests, and the fruit growers. See Theodore Saloutos and John D. Hicks, *Agricultural Discontent in the Middle West* (Madison, Wis.: University of Wisconsin Press, 1951), pp. 407-412.

pro-union outlook in industry as a method of insuring the cooperation of labor; booster of high wages as a sustainer of purchasing power and business prosperity; ardent proponent of massive public-works schemes during depressions; advocate of government programs to boost farm prices and farm co-ops; no one could have been as ideally suited as Herbert Clark Hoover to be President at the onset of a Great Depression and to react with a radical program of statism to be trumpeted as a "New Deal." And that is precisely what Herbert Hoover did. It is one of the great ironies of historiography that the founder of every single one of the features of Franklin Roosevelt's New Deal was to become enshrined among historians and the general public as the last stalwart defender of laissez-faire.

Let us consider the New Deal—a rapid intensification of government intervention that began in response to a severe depression, and featured: cartelization of industry through government-and-business planning; bolstering of prices and wage rates; expansion of credit; massive unemployment relief and public-works programs; support of farm prices; propping up of weak and unsound business positions. Every one of these features was founded, and consciously so, by President Hoover. Hoover consciously and deliberately broke sharply and rapidly with the whole American tradition of a laissez-faire response to depression. As Hoover himself proclaimed during his presidential campaign of 1932:

. . . we might have done nothing. That would have been utter ruin. Instead we met the situation with proposals to private business and to Congress of the most gigantic program of economic defense and counterattack ever evolved in the history of the Republic. We put it into action. . . . No government in Washington has hitherto considered that it held so broad a responsibility for leadership in such times. . . . For the first time in the history of depressions, dividends, profits and the cost of living, have been re-

duced before wages have suffered. . . . They were maintained until the cost of living had decreased and the profits had practically vanished. They are now the highest real wages in the world.<sup>31</sup>

Hoover began his "gigantic" program as soon as the stock market crashed on October 24, 1929. His most fateful act was to call a series of White House Conferences with the nation's leading financiers and industrialists, and induce them to pledge that wage rates would not be lowered and that they would expand their investments. Hoover explained the general aim of these conferences to be the coordination of business and government agencies in concerted action. Industrial group after group pledged that wage rates would be maintained. Hoover insisted that, contrary to previous depressions when wage rates fell promptly and rapidly (and, we might add, the depression was then soon over), wage rates must now be the last to fall, in order to prop up mass purchasing power. The entire burden of the recession, then, must fall upon business

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<sup>31</sup> Rothbard, *America's Great Depression*, pp. 169–186. One of the first observers who saw that the radical break with the past came with Hoover and not with F.D.R. was Walter Lippmann, who wrote in 1935 that the "policy initiated by President Hoover in the autumn of 1929 was something utterly unprecedented in American history. The national government undertook to make the whole economic order operate prosperously. . . . The state attempted to direct by the public wisdom a recovery in the business cycle which had hitherto been left with as little interference as possible to individual exertion." Walter Lippmann, "The Permanent New Deal," reprinted in R. M. Abrams and L. W. Levine, eds., *The Shaping of Twentieth-Century America* (Boston: Little, Brown & Co., 1965), p. 430. Similarly, the perceptive term "Hoover New Deal" was coined by the contemporary observer and economist Benjamin M. Anderson. See "The Road Back to Full Employment," in P. Homan and F. Machlup, eds., *Financing American Prosperity* (New York: Twentieth Century Fund, 1945), pp. 9–70; and Anderson, *Economics and the Public Welfare: Financial and Economic History of the U.S., 1914–46* (Princeton: D. Van Nostrand, 1949).

profits. The most important of these conferences occurred on November 21, when such great industrial leaders as Henry Ford, Julius Rosenwald, Walter Teagle, Owen D. Young, Alfred P. Sloan, Jr., and Pierre du Pont pledged their cooperation to the Hoover program. These agreements were made public, and Hoover hailed them at a White House conference on December 5, as an "advance in the whole conception of the relationship of business to public welfare . . . a far cry from the arbitrary and dog-eat-dog attitude of . . . the business world of some thirty or forty years ago." The AF of L lauded this new development; never before, it proclaimed, have the industrial leaders "been called upon to act together . . ."<sup>32</sup> By the following March the AF of L was reporting that the big corporations were indeed keeping their agreement to maintain wage rates.<sup>33</sup>

In September, 1930, Hoover took another step to relieve unemployment and, by the way, to prop up wage rates. By administrative decree, Hoover in effect barred almost all further immigration into the country. In keeping with this policy of curing unemployment by forcing people out of the labor force, he deliberately accelerated the deportation of "undesirable" aliens, the deportation level reaching 20,000 per year.

The wage agreement held firm in the midst of a cataclysmic Depression and unprecedented and prolonged mass unemployment.<sup>34</sup> In fact, since prices were falling rapidly, this meant that the *real* wage rates of those lucky enough to remain employed were increasing sharply. The econo-

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<sup>32</sup> *The American Federationist* (January, 1930). On the White House Conferences, see Robert P. Lamont, "The White House Conferences," *The Journal of Business* (July, 1930), p. 269.

<sup>33</sup> *The American Federationist* (March, 1930), p. 344.

<sup>34</sup> Particularly active in keeping industry in line was the President's Emergency Committee for Employment; see E. P. Hayes, *Activities of the President's Emergency Committee for Employment, October 17, 1930—August 19, 1931* (Printed by the author, 1936).

mist Leo Wolman noted at the time that it "is indeed impossible to recall any past depression of similar intensity and duration in which the wages of prosperity were maintained as long as they have been in the depression of 1930-31."<sup>35</sup> It was a record hailed by liberals from the AF of L to John Maynard Keynes. It was only by 1932, after several years of severe depression and catastrophic unemployment, that businesses could keep up wage rates no longer. When, in the fall of 1931, the United States Steel Corporation finally summoned up the courage to cut wage rates, it did so over the opposition of its own president and to the accusation of William Green that its 1929 pledge to the White House was being violated.<sup>36</sup> The large firms were particularly slow to break the agreement, and even then many of the cuts were made in executive salaries where the unemployment problem was at a minimum. Even with the cuts in wages, wage rates fell by only twenty-three percent from 1929 to 1933—less than the decline of prices. Thus, *real* wage rates actually rose over the period, by over eight percent in the leading manufacturing industries. The drop in wage rates had been far more prompt and extensive in the far milder 1921 depression. In the face of this record of wage maintenance, the unemployment rate rose to twenty-five percent of the labor force by 1933, and to a phenomenal forty-six percent in the leading manufacturing industries. There were, unfortunately, only a few observers and economists who understood the causal connection between these events: that maintenance of wage rates was precisely the major factor in deepening and prolonging mass unemployment and the Depression.<sup>37</sup>

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<sup>35</sup> Leo Wolman, *Wages in Relation to Economic Recovery* (Chicago: University of Chicago Press, 1931).

<sup>36</sup> See Fred R. Fairchild, "Government Saves Us from Depression," *Yale Review* (Summer, 1932), pp. 667 ff; and Dorfman, *op. cit.*, Vol. V, p. 620.

<sup>37</sup> See the unfortunately neglected study by Sol Shaviro, "Wages and Payroll in the Depression, 1929-1933" (Master's essay, Columbia University, 1947). Also see Rothbard, *America's*



Hoover did his best, furthermore, to engineer a massive inflation of money and credit. In the crucial figure of government securities owned by the Federal Reserve Banks, Federal Reserve holdings rose from \$300 million in September, 1929, to \$1,840 million in March, 1933—a sixfold increase. Ordinarily this would have led to a sixfold expansion of bank reserves and an enormous inflation of the money supply. But the Hoover drive for inflation was thwarted by the forces of the economy. Federal Reserve rediscounts fell by half a billion due to sluggish business demand, despite a sharp drop in the Federal Reserve's discount rate; cash in circulation increased by one and a half billion due to the public's growing distrust of the shaky and inflated banking system; and the banks began to pile up excess reserves because of their fear of making investments amidst the sea of business failures. The Hoover Administration grew livid with the banks, and Hoover denounced the "lack of cooperation of the commercial banks . . . in the credit expansion drive." Atlee Pomerene, head of the Reconstruction Finance Corporation, went so far as to declare that any bank that is liquid and doesn't extend its loans is a "parasite on the country."<sup>38</sup> Hoover told Secretary of the Treasury Ogden Mills to form a committee of leading industrialists and bankers to pressure the banks into extending their credit.<sup>39</sup> By the end of his term and the

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*Great Depression*, pp. 236–239, 290–294; C. A. Phillips, T. F. McManus, and R. W. Nelson, *Banking and the Business Cycle* (New York: Macmillan, 1937), pp. 231–232; National Industrial Conference Board, *Salary and Wage Policy in the Depression* (New York: Conference Board, 1933), pp. 31–38; and Dale Yoder and George R. Davies, *Depression and Recovery* (New York: McGraw-Hill, 1934), p. 89.

<sup>38</sup> *The New York Times*, May 20, 1932.

<sup>39</sup> Chairman of the committee was Owen D. Young of General Electric. Included in the committee were Walter S. Gifford of AT&T, Charles E. Mitchell of National City Bank, and Walter C. Teagle of Standard Oil of New Jersey.

For more on Hoover's threats against the banks, see Herbert

abject failure of his inflationist program, Hoover was proposing what are surely typical New Deal measures: bank holidays, and at least temporary federal "insurance" of bank deposits.

In fact, Hoover seriously considered invoking a forgotten wartime law making the "hoarding" of gold (that is, redemption of dollars into gold) a criminal offense.<sup>40</sup> Although he did not go that far, he did try his best to hamper the workings of the gold standard by condemning and blackening the names of people who lawfully redeemed their dollars in gold or their bank deposits into cash. In February, 1932, Hoover established the Citizens' Reconstruction Organization under Colonel Frank Knox of Chicago, dedicated to condemning "hoarders" and unpatriotic "traitors." Leading industrialists and labor leaders joined the CRO. Hoover also secretly tried to stop the American press from printing the full truth about the banking crisis and about the rising public criticism of his Administration.<sup>41</sup>

Neither was Hoover lax in increasing the expenditures of the federal government. Federal expenditures rose from \$3.3 billion in fiscal 1929 to \$4.6 billion in fiscal 1932 and 1933, a rise of forty percent. Meanwhile, federal budget receipts fell in half, from \$4 billion to less than \$2 billion, demonstrating that Hoover was so much of a proto-Keynesian that he was willing to incur a deficit of nearly

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Stein, "Pre-Revolutionary Fiscal Policy: The Regime of Herbert Hoover," *Journal of Law and Economics* (October, 1966), p. 197n.

<sup>40</sup> Jesse H. Jones and Edward Angly, *Fifty Billion Dollars* (New York: Macmillan, 1951), p. 18. Also see H. Parker Willis and John M. Chapman, *The Banking Situation* (New York: Columbia University Press, 1934), pp. 9 ff. Furthermore, Hoover's Secretary and Undersecretary of the Treasury had decided, by the end of their terms, that the gold standard should be abolished. *New York Herald Tribune*, May 5, 1958, p. 18.

<sup>41</sup> Kent Cooper, *Kent Cooper and the Associated Press* (New York: Random House, 1959), p. 157.

sixty percent of the budget. This was, to that moment, the largest peacetime federal deficit in American history.

Part of this massive rise of federal expenditures went, as one might expect, into public works. So promptly did Hoover act to expand public works (proposing a \$600 million increase by December, 1929) that by the end of 1929 the economist J. M. Clark was already hailing Hoover's "great experiment in constructive industrial statesmanship."<sup>42</sup> In February, 1931, Hoover's Emergency Committee for Employment was instrumental in pushing through Congress Senator Wagner's (D., N.Y.) Employment Stabilization Act, which established an Employment Stabilization Board to expand public works in a depression, and a fund of \$150 million to put the plan into effect. In happily signing the measure, Hoover gave a large amount of credit to the veteran public-works agitator, Otto Tod Mallery.<sup>43</sup> In his memoirs, Hoover recalled with pride that his Administration had constructed more public works than had the federal government over the previous thirty years, and that he personally had induced state and local governments to expand their public-works programs by \$1.5 billion. He also launched the Boulder, Grand Coulee, and California Central Valley dams, and, after agitating for the project since 1921, Hoover signed a treaty with Canada to build a St. Lawrence Seaway, a treaty rejected by the Senate.<sup>44</sup> Furthermore, the Boulder project was the

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<sup>42</sup> John Maurice Clark, "Public Works and Unemployment," *American Economic Review, Papers and Proceedings* (May, 1930), pp. 15 ff.

<sup>43</sup> See Irving Bernstein, *The Lean Years* (Boston: Houghton Mifflin, 1960), p. 272; Dorfman, *op. cit.*, Vol. V, p. 7n.

<sup>44</sup> It is instructive to note the attitude of private electrical companies toward the government-built Boulder Dam. They looked forward to purchasing cheap, subsidized governmental power, which they would then resell to their customers. The private-power companies also saw Boulder Dam as a risky,

first example of large-scale, federal, multipurpose river-basin planning.<sup>45</sup>

It must be noted, however, that in the last year of his term, Hoover, the veteran pioneer of public-works stabilization, began to find the accelerating movement toward ever greater public works going beyond him. As writers, economists, politicians, businessmen, and the construction industry called loudly for many billions in public works, Hoover began to draw back. He began to see public works as costly, and as bringing relief to a selected group only. He came to favor a relatively greater emphasis on federal grants-in-aid and on public works that would be self-liquidating. As a result, federal public-works spending increased only slightly during 1932. As we shall see, Hoover's growing doubts on public works were symptomatic of a more general process of being left behind by the accelerating onrush toward collectivist thinking that developed during his final year as President.<sup>46</sup>

Another massive dose of government intervention was President Hoover's Home Loan Bank System, established in the Federal Home Loan Act of July, 1932. Supported enthusiastically by the building and loan associations, the act paralleled the Federal Reserve Act in relation to these associations. Twelve district banks were established under a Federal Home Loan Bank Board, with a \$25 million capital supplied by the Treasury, as a compulsory, central mortgage-discount bank for the building and loan industry. Hoover had originally proposed a grandiose national mort-

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submarginal project, the costs of which they were happy to see shouldered by the taxpayers. See Harris Gaylord Warren, *Herbert Hoover and the Great Depression* (New York: Oxford University Press, 1959), p. 64.

<sup>45</sup> See Swain, *Federal Conservation Policy*, pp. 25 ff, 161 ff.

<sup>46</sup> See Vladimir D. Kazakévich, "Inflation and Public Works," in H. Parker Willis and John M. Chapman, eds., *The Economics of Inflation* (New York: Columbia University Press, 1935), pp. 344-349.

gage-discount system that would also include savings banks and insurance companies, but the latter refused to agree to the scheme. As it was, Hoover complained that Congress had placed excessively rigorous limits on the amount of discounting that could be made by the Board; but he did his best to spur use of the new system.

One of Mr. Hoover's clearest harbingers of the New Deal was his creation in January, 1932, of the Reconstruction Finance Corporation. The RFC was clearly inspired by and modeled after the old wartime War Finance Corporation, which had extended emergency loans to business. One of the leading originators of the RFC was Eugene Meyer, Jr., Governor of the Federal Reserve Board, and former Managing Director of the WFC; most of the old WFC staff were employed by the new organization.<sup>47</sup>

The RFC began in the fall of 1931 as the National Credit Corporation, through which leading banks were persuaded, at a secret conference with Hoover and his aides, to extend credit to shaky banks, with Federal Reserve assistance. When the banks balked at this scheme, Hoover threatened legislation to compel their cooperation; in return for their agreement to the NCC, the Administration agreed that it would be strictly temporary, to be replaced soon by an RFC.

The RFC bill was passed hurriedly by Congress in January, 1932. The Treasury furnished it with half a billion dollars, and it was empowered to issue debentures up to \$1.5 billion. Meyer was chosen to be chairman of the new organization. In the first half of 1932, the RFC extended, in the deepest secrecy, \$1 billion of loans, largely

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<sup>47</sup> Leuchtenburg, "The New Deal and the Analogue of War," pp. 98-100. Also see Gerald D. Nash, "Herbert Hoover and the Origins of the Reconstruction Finance Corporation," *Mississippi Valley Historical Review* (December, 1959), pp. 455-468.

to banks and railroads.<sup>48</sup> The railroads received nearly \$50 million simply to repay debts to the large banks, notably J. P. Morgan & Co. and Kuhn, Loeb and Co. One of the important enthusiasts for this policy was Eugene Meyer, Jr., on the grounds of "promoting recovery" and frankly, of "putting more money into the banks." Meyer's enthusiasm might well have been bolstered by the fact that his brother-in-law, George Blumenthal, was an officer of J. P. Morgan & Co., and that he himself had served as an officer of the Morgan bank.

But Hoover wasn't satisfied with the massiveness of the RFC program. He insisted that RFC be able to lend more widely to industry and to agriculture, and that it be able to make capital loans. This amendment—the Emergency Relief and Construction Act—passed Congress in July, 1932; the Act nearly doubled total RFC capital from \$2 billion to \$3.8 billion, and greatly widened the scope of RFC lending.<sup>49</sup> During 1932, the RFC extended loans totaling \$2.3 billion.

Herbert Hoover's enthusiasm for government aid to industry and banking was not matched in the area of Depression relief to the poor; here his instincts were much more voluntarist. Hoover steadfastly maintained his voluntary relief position until mid-1932. As early as 1930/31, he had been pressured on behalf of federal relief by Colonel Arthur Woods, the Chairman of Hoover's Emergency Committee for Employment, who had previously been a member of Rockefeller's General Education Board. But in

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<sup>48</sup> Many large loans were made by the RFC to banks that were in the ambit of RFC directors themselves, or of others high up in the Hoover Administration. Thus, shortly after General Charles Dawes resigned as President of the RFC, the bank that he headed, the Central Republic Bank and Trust Co., received a large RFC loan. See John T. Flynn, "Inside the RFC," *Harpers' Magazine* (1933), pp. 161-169.

<sup>49</sup> See J. Franklin Ebersole, "One Year of the Reconstruction Finance Corporation," *Quarterly Journal of Economics* (May, 1933), pp. 464-487.

mid-1932 a group of leading Chicago industrialists was instrumental in persuading Hoover to change his mind and establish a federal relief program. In addition to widening the powers of the RFC loans to industry, Hoover's Emergency Relief and Construction Act was the nation's first federal relief legislation. The RFC was authorized to lend \$300 million to the states for poor relief.<sup>50</sup>

Throughout the Depression, Herbert Hoover gave vent to his long-standing dislike of speculation and the stock market. In the fall of 1930, Hoover threatened federal regulation of the New York Stock Exchange, hitherto thought to be constitutionally subject only to state regulation. Hoover forced the Exchange to agree "voluntarily" to withhold loans for purposes of short selling. Hoover returned to the attack during 1932, threatening federal action against short selling. He also induced the Senate to investigate "sinister . . . bear raids" on the Exchange. Hoover seemed to find it sinful and vaguely traitorous for the stock market to judge stock values on the basis of current (low) earnings. Hoover went on to propose what later came to pass as the New Deal's SEC, a regulation that Hoover openly applauded.

Hoover's Federal Farm Board was ready to move when the Depression arrived and the FFB proceeded on its proto-New Deal farm policy of attempting to raise and support farm prices.

The FFB's first big operation was in wheat. The Board advised the receptive wheat farmers to act like cartelists, in short to hold wheat off the market and wait for higher prices. Soon it began to lend \$100 million to wheat co-ops to withhold wheat stocks, and thereby raise prices; and it established a central grain corporation to centralize and coordinate the wheat cooperatives. When the loans to co-ops failed to stem the tide of falling wheat prices, the grain

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<sup>50</sup> Bernstein, *The Lean Years*, p. 467.

corporation began to buy wheat on its own. The FFB loans and purchases managed to sustain wheat prices for a time; but by the spring of 1930 this had only aggravated the wheat surplus by inducing farmers to expand their production, and the only result was further declines in price.

It became clear to the Hoover Administration that the cartelizing and price-raising policy could not work unless wheat production was reduced. A typical Hooverian round of attempted voluntary persuasion ensued, led by the Secretary of Agriculture and the FFB; a group of economists was sent from Washington to urge the marginal Northwestern wheat farmers—the original agitators for wheat price supports—to shift from wheat into some other crop. Secretary of Agriculture Arthur M. Hyde and the FFB's Alexander Legge toured the Middle West, urging farmers to lower their wheat acreage. But, as could have been foreseen, none of this moral exhortation was effective, and wheat surpluses continued to pile up and prices to fall. By November, the government's Grain Stabilization Corporation had purchased over 65 million bushels of wheat to hold off the market, but to no avail. Then, in November, 1930, Hoover authorized the GSC to purchase as much wheat as might be necessary to stop any further fall in wheat prices. But economic forces could not be defeated so easily, and wheat prices continued to fall. Finally, the FFB conceded defeat and dumped its accumulated wheat stocks, further intensifying the fall in wheat prices.

Similar price-support programs were tried in cotton, but with similar disastrous results. Chairman James C. Stone of the Federal Farm Board even tried to mobilize the state governors to plow under every third row of cotton, but still to no avail. Similar calamitous attempts at cartelization occurred in wool, butter, grapes, and tobacco.

It was becoming clear that the cartelizing program could not work unless there were compulsory restrictions on production; there were simply too many farmers for voluntary exhortations to have any effect. President Hoover



began to move down that road, recommending at least that productive land be withdrawn from cultivation, that crops be plowed under, and that immature farm animals be slaughtered—all to reduce the very surpluses that Hoover's price supports had accumulated.<sup>51</sup>

Meanwhile, President Hoover pursued cartelization in other fields with more success. In May, 1931, he ordered the cessation of new leases in the federal forests for purposes of lumbering. He also withdrew over two million acres of forest land from production and into "national forests," and increased the area of national parks by forty percent.<sup>52</sup>

Hoover put through the McNary-Watres Act of April, 1930, which deliberately used postal air-mail subsidies and regulation to bring commercial airlines under federal organization and control. Hoover's admiring biographers wrote that, as a result of this law: "The routes were consolidated into a carefully planned national system of commercial airways . . . The Nation was saved from a hodgepodge of airways similar to the tangle that had grown up in rail transportation."<sup>53</sup>

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<sup>51</sup> It was left for the conservative Senator Arthur H. Vandenberg (R., Mich.) to propose the final link in the chain that was to form the New Deal's AAA: compelling farmers to cut production. Gilbert N. Fite, "Farmer Opinion and the Agricultural Adjustment Act, 1933," *Mississippi Valley Historical Review* (March, 1962), p. 663.

<sup>52</sup> Warren, *Herbert Hoover and the Great Depression*, p. 65. Hoover also endorsed the privately financed Timber Conservation Board, formed to encourage cooperation in the lumber industry. Ellis W. Hawley, "Herbert Hoover and the Economic Planners, 1931-32" (Unpublished manuscript, 1968), p. 9.

In a prefigurement of the New Deal's CCC, Hoover's Forestry Service put through a large-scale program of work relief for the unemployed in public-works construction in the national forests. Swain, *Federal Conservation Policy*, p. 25.

<sup>53</sup> William Starr Myers and Walter H. Newton, *The Hoover Administration* (New York: Charles Scribners, 1936), p. 430.

Hoover also urged upon Congress what would have been the first federal regulation of electric power companies. Hoover's original proposal was to give the Federal Power Commission the power to set interstate power rates in collaboration with state power commissions. But Congress refused to go that far, and the FPC, although expanded, continued to exercise power only over water power in rivers.

In the coal industry, Hoover sympathized with the Appalachian Coal combine, which marketed three-quarters of Appalachian bituminous coal, in an attempt to raise coal prices and allocate production quotas to the various coal mines. Hoover also called for the reduction of "destructive competition" reigning in the coal industry.<sup>54</sup>

Hoover was more specific in helping to cartelize the oil industry. Hoover and his Secretary of the Interior Ray Lyman Wilbur stimulated such states as Texas and Oklahoma to pass oil proration laws in the name of "conservation," to curtail crude oil production and thereby raise prices, and to establish an interstate compact to collaborate in the proration program. Hoover also aided these laws by suspending all further oil leases on public lands and by pressuring oil operators near the public domain to agree to restrict oil production.

In sponsoring and encouraging proration laws particularly, Hoover was taking his stand with the large oil companies. Hoover's and Wilbur's suggestion of general Sunday shutdowns of oil production was approved by the large companies, but defeated by the opposition of the smaller producers. The smaller firms particularly urged a protective tariff on imported crude and petroleum products, which Hoover finally agreed to in 1932. The tariff served to make the domestic cartel and proration laws more generally effective. In its restriction of imports, the

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<sup>54</sup> Myers and Newton, *The Hoover Administration*, p. 50; Waldo E. Fisher and Charles M. James, *Minimum Price Fixing in the Bituminous Coal Industry* (Princeton: Princeton University Press, 1955), pp. 21-27.

tariff demonstrated that the drive for proration laws had little to do with simply conserving domestic oil reserves, but was rather aimed at cutting the supply of oil available to the domestic market.

Despite these services by Hoover, the oil industry was still restive; the industry wanted more, it wanted federal legislation in outright support of restricting production and raising prices. Here, too, President Hoover was beginning to lose the leadership of the accelerating cartelization movement in American industry.<sup>55</sup>

In the cotton textile industry, the trade association, the Cotton Textile Institute, which had long been close to Hoover, cunningly decided to press for monopolistic curtailment of production under the guise of "humanitarianism." The device was to call for the abolition of night work for women and children; such a drive was neatly calculated to appeal both to Hoover's (and to the industry's) monopoloid convictions, as well as to his humanitarian rhetoric. CTI's campaign of 1930/31 to pressure the various mills to abolish night work for women and children was substantially aided by Hoover and his Department of Commerce, who actively "helped to whip the noncooperators into line." Hoover publicized his firm support, and Secretary of Commerce Lamont sent personal letters to cotton textile operators, urging their adherence to the plan.<sup>56</sup> Intense Administration pressure continued throughout 1931 and 1932. Lamont called a special conference to which he brought several leading bankers and the endorsement of Hoover to pressure the holdouts into line.

But this cartel scheme also failed, for cotton textile prices continued to fall. As a result, compliance with the curtailment of production began to crack. The cartel failed for reasons similar to the failure of the FFB: despite the

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<sup>55</sup> See George W. Stocking, "Stabilization of the Oil Industry: Its Economic and Legal Aspects," *American Economic Review, Papers and Proceedings* (May, 1933), pp. 59-70.

<sup>56</sup> Galambos, *op. cit.*, pp. 153-157, 165-169.

intense Administration pressure, the production cuts remained only voluntary. So long as there was no outright governmental compulsion on the textile firms to obey the production quotas, prices could not be raised. By 1932, the cotton textile industry, too, was becoming impatient with its old friend Hoover; the industry was rapidly beginning to agitate for governmental coercion to make cartelization work.<sup>57</sup>

This attitude of the cotton textile, petroleum, and agricultural industries spread rapidly throughout American industry during 1931 and 1932: an impatience with the pace of America's movement toward the corporate state. Under the impact of the Great Depression, American industry, along with the nation's intellectuals and labor leaders, began to clamor for the outright collectivism of a corporate state; for federal organization of trade associations into compulsory cartels for restricting production and raising prices. In short, a general clamor arose for an economy of fascism.

The most important call for the compulsory cartelization of a corporate state was sounded by Gerard Swope, the veteran corporate liberal who headed General Electric. Swope delivered his famous "Swope Plan" before the National Electrical Manufacturers Association in the fall of 1931, and it was endorsed by the United States Chamber of Commerce in December.<sup>58</sup> Particularly enthusiastic was Henry I. Harriman, president of the Chamber, who declared that any dissenting businessmen would be "treated like any maverick . . . They'll be roped and branded, and made to run with the herd."<sup>59</sup> Charles F. Abbott of

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<sup>57</sup> *Ibid.*, pp. 176-184.

<sup>58</sup> The text of the Swope address can be found in *Monthly Labor Review*, Vol. 32 (1931), pp. 834 ff. Also see David Loth, *Swope of GE* (New York: Simon and Schuster, 1958), pp. 202 ff.

<sup>59</sup> Quoted in Arthur M. Schlesinger, Jr., *The Crisis of the Old Order, 1919-1933* (Boston: Houghton Mifflin Co., 1957), pp. 182-183.

the American Institute of Steel Construction hailed the Swope Plan as "a measure of public safety" to crack down on "the blustering individual who claims the right to do as he pleases."<sup>60</sup> The AF of L endorsed a similar program, with a slightly greater share to go to the unions in overall control; particularly enthusiastic were John L. Lewis and Sidney Hillman, later to form the New Deal-oriented CIO.<sup>61</sup>

Dr. Virgil Jordan, economist for the National Industrial Conference Board, summed up the state of business opinion when he concluded, approvingly, that businessmen were ready for an "economic Mussolini."<sup>62</sup>

In the light of Herbert Hoover's lengthy corporatist career, the business leaders naturally expected him to agree wholeheartedly with the new drive toward business collectivism.<sup>63</sup> Hence they were greatly surprised and chagrined to find Hoover sharply drawing back from the abyss, from pursuing the very logic toward which his entire career had been leading.

It is not unusual for revolutions to devour their fathers and pioneers. As a revolutionary process accelerates, the early leaders begin to draw back from the implicit logic of their own life work and to leap off the accelerating bandwagon that they themselves had helped to launch. So it was with Herbert Hoover. All his life he had been a dedicated corporatist; but all his life he had also liked to cloak his corporate-state coercion in cloudy voluntarist generalities.

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<sup>60</sup> J. George Frederick, *Readings in Economic Planning* (New York: The Business Course, 1932), pp. 333-334.

<sup>61</sup> See Rothbard, *America's Great Depression*, pp. 245-249; Rothbard, "The Hoover Myth: Review of Albert U. Romasco, *The Poverty of Abundance*," in James Weinstein and David W. Eakins, eds., *For a New America* (New York: Random House, 1970), pp. 162-179; and Hawley, "Herbert Hoover and the Economic Planners," pp. 4 ff.

<sup>62</sup> Schlesinger, *op. cit.*, p. 268.

<sup>63</sup> Hawley, *op. cit.*, pp. 4-11.

All his life he had sought and employed the mailed fist of coercion inside the velvet glove of traditional voluntarist rhetoric. But now his old friends and associates—men like his longtime aide and Chamber of Commerce leader Julius Barnes, railroad magnate Daniel Willard, and industrialist Gerard Swope—were in effect urging him to throw off the voluntarist cloak and to adopt the naked economy of fascism. This Herbert Hoover could not do; and as he saw the new trend he began to fight it, without at all abandoning any of his previous positions. Herbert Hoover was being polarized completely out of the accelerating drive toward statism; by merely advancing at a far slower pace, the former “progressive” corporatist was now becoming a timid moderate in relation to the swift rush of the ideological current. The former leader and molder of opinion was becoming passé.<sup>64</sup>

Hoover began to fight back, and to insist that a certain proportion of individualism, a certain degree of the old “American system,” must be preserved. The Swope and similar plans, he charged, would result in a complete monopolization of industry, would establish a vast governmental bureaucracy, and would regiment society. In short, as Hoover told Henry Harriman in exasperation, the Swope–Chamber of Commerce Plan was, simply, “fascism.”<sup>65</sup> Herbert Hoover had finally seen the abyss of fascism and was having none of it.

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<sup>64</sup> Hoover had done his best to further corporatism in more moderate and gradual ways. In addition to the measures described above, Hoover sponsored the highly protectionist Smoot-Hawley Tariff in 1929/30, and he signed the Norris-LaGuardia Act of 1932, which sponsored labor unionism by outlawing contractual agreements not to join unions and greatly curtailing the use of injunctions in labor disputes.

<sup>65</sup> Hoover also resisted corporate-collectivist pressure from within his own Administration, notably from such men as Frederick Feiker, head of the Bureau of Foreign and Domestic Commerce, and his old friend Secretary of the Interior Ray Lyman Wilbur. Hawley, *op. cit.*, p. 211.

Franklin Roosevelt was to have no such scruples. Hoover's decision had vital political consequences: for Harriman told him bluntly at the start of the 1932 campaign that Franklin Roosevelt had accepted the Swope Plan—as he was to prove amply with the NRA and AAA. If Hoover persisted in being stubborn, Harriman warned, the business world, and especially big business, would back Roosevelt. Hoover's brusque dismissal led to big business carrying out its threat. It was Herbert Hoover's finest hour.<sup>66</sup>

America's legion of corporate liberals, who found their Holy Grail with the advent of Franklin Roosevelt's New Deal, never forgave or forgot Herbert Hoover's hanging back from America's entry into the Promised Land. To the angry liberals, Hoover's caution looked very much like old-fashioned laissez-faire. Hence Herbert Hoover's pervasive entry into the public mind as a doughty champion of laissez-faire individualism.<sup>67</sup> It was an ironic ending to the career of one of the great pioneers of American state corporatism.

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<sup>66</sup> Hoover, *Memoirs*, Vol. III, pp. 334–335. Also see Loth, *op. cit.*, pp. 208–210; Eugene Lyons, *Herbert Hoover* (Garden City, N.Y.: Doubleday & Co., 1964), pp. 293–294; Myers and Newton, *op. cit.*, pp. 245–256, 488–489.

<sup>67</sup> For a penetrating exception to this common view, see William Appleman Williams, *The Contours of American History* (Cleveland: World Publishing Co., 1961), pp. 385, 415, 425–438.

# The Myth of the New Deal

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RONALD RADOSH

Great Depression, labor unrest, massive unemployment, growing consciousness among the working classes, bitter hostility toward the multimillion-dollar corporations, failure of the reigning Republican Administration to quiet the brewing explosion—and then the New Deal. The social revolution, which many expected and others feared, failed to materialize. Why? Was it because the New Deal, in its own special way, was indeed a third American Revolution?

From the perspective of the 1970s, with the stark realization that the United States had failed to deal with the race question, or to eradicate poverty, or even to begin to deal with the urban crisis, or to handle the general malaise and cultural poverty, or to adapt itself to the growing realization that revolutions abroad would have to be accepted and dealt with on their own terms, all of these events of the past ten years seemingly provided living evidence that a revolution had not occurred.

The new generation of New Left historians have asserted cogently that the New Deal instituted changes that only buttressed the corporate-capitalist order; that the vaunted Welfare State reforms hardly addressed themselves to the existing social needs of the 1930s, not to speak of working to end poverty, racism, and war. Historians Howard Zinn



and Barton J. Bernstein have already written critical essays seeking to evaluate the New Deal from a radical perspective,<sup>1</sup> and this essay shall not seek to repeat the critique advanced therein. The essence of their critical view has been best expressed by Bernstein:

The liberal reforms of the New Deal did not transform the American system; they conserved and protected American corporate capitalism, occasionally by absorbing parts of threatening programs. There was no significant redistribution of power in American society, only limited recognition of other organized groups. . . . The New Deal failed to solve the problem of depression, it failed to raise the impoverished, it failed to redistribute income, it failed to extend equality and generally countenanced racial discrimination and segregation.<sup>2</sup>

Once having presented this argument, however, the radical critic has in effect merely chastised the New Deal for what it failed to achieve. This does not work to answer the counterargument that Franklin D. Roosevelt and the New Dealers wanted more, but were stopped short because of the power of the congressional conservative bloc and other impenetrable obstacles.

It is undeniable that to many of the over-forty generation, Franklin D. Roosevelt was and remains the unassailable hero—the man who used all the powers at his command to ease the plight of the dispossessed, and who introduced dramatic reforms that would soon be accepted by the most staunch Old Guard Republican. That generation remembers the animosity with which many in the business community greeted Roosevelt, and the way in

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<sup>1</sup> Howard Zinn, "The Limits of the New Deal," in Howard Zinn, *The Politics of History* (Boston: Beacon Press, 1970), pp. 118–136; Barton J. Bernstein, "The New Deal: The Conservative Achievements of Liberal Reform," in Barton J. Bernstein, ed., *Towards a New Past* (New York: Pantheon, 1968), pp. 263–288.

<sup>2</sup> Bernstein, *op. cit.*, p. 264.

which Roosevelt condemned the forces of organized wealth that were out to destroy him. They did not have the tools of historical perspective to evaluate F.D.R.'s actual performance, or to understand what historian Paul Conkin has noted: that the New Deal policies actually functioned in a probusiness manner. Conkin wrote:

The enemies of the New Deal were wrong. They should have been friends. Security was a prime concern of the insecure thirties. It cut across all classes. Businessmen, by their policies, desperately sought it in lowered corporate debts and tried to get the government to practice the same austerity. Even when ragged and ill-housed, workers opened saving accounts. The New Deal . . . underwrote a vast apparatus of security. But the meager benefits of Social Security were insignificant in comparison to the building system of security for large, established businesses. But like stingy laborers, the frightened businessmen did not use and enjoy this security and thus increase it. The New Deal tried to frame institutions to protect capitalism from major business cycles and began in an unclear sort of way to underwrite continuous economic growth and sustained profits. Although some tax bills were aimed at high profits, there was no attack on fair profits or even on large profits . . . there was no significant leveling by taxes. The proportionate distribution of wealth remained. Because of tax policies, even relief expenditures were disguised subsidies to corporations, since they were in large part paid by future taxes on individual salaries or on consumer goods. Thus, instead of higher wages creating a market, at the short-term expense of profits, the government subsidized the businessman, without taking the cost out of his hide as he expected and feared.<sup>3</sup>

What Conkin was suggesting is that the anger of some businessmen was misdirected; another example of how

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<sup>3</sup> Paul Conkin, *The New Deal* (New York: T. Y. Crowell, 1967), pp. 74-75.

members of the governing class can be so shortsighted that they will oppose their own best long-range interests. The confusion of the businessmen had its mirror image in the high regard in which so many members of the underclass held F.D.R. and the New Deal. Roosevelt was able, for a while, to build and maintain the famous New Deal coalition that swept him into office in 1936. White workers from the North, blacks from the urban ghettos, and farmers from the Midwest all responded to the New Deal and claimed it as their own. Explaining this success as a result of the "powers of rhetoric," as did Bernstein, evades the real question. How could rhetoric alone convince so many that their lives had changed, if indeed, life was the same as it had always been? Perhaps reality did change just enough so that the failure of the New Deal to make substantive structural changes remained hidden.

Before we can begin to deal with these questions, it may be wise to start by citing the answer presented to the New Left historians by the dean of American corporate liberalism, Arthur M. Schlesinger, Jr., author in 1948 of the theory of a crucial "vital center" in American politics. Schlesinger has carefully presented his generation's answer to the New Left, and has defended the traditional view that the New Deal was a major watershed in American history.

A young radical told him, Schlesinger wrote, that all F.D.R. did was

"abort the revolution by incremental gestures." At the same time, he dangerously cultivated a mood for charismatic mass policies, dangerously strengthened the Presidency, dangerously concentrated power in the national government. In foreign affairs, he was an imperialist who went to war against Germany and Japan because they were invading markets required by American capitalism.

Claiming that Roosevelt "will survive this assault from the left as he has survived the earlier assault from the right,"

Schlesinger ended with his own brief estimate of F.D.R.'s policies and times. Roosevelt

led our nation through a crisis of confidence by convincing the American people that they had unsuspected reserves of decency, steadfastness and concern. He defeated the grand ideologists of his age by showing how experiment could overcome dogma, in peace and in war.<sup>4</sup>

Schlesinger's writings help us to understand how those who only mildly benefited from the New Deal praised it, defended it, and allowed their experience during the 1930s to shape their social and political attitudes for more than a decade. Undoubtedly, many Americans have the same analysis of Social Security as does Schlesinger.

No government bureau ever directly touched the lives of so many millions of Americans—the old, the jobless, the sick, the needy, the blind, the mothers, the children—with so little confusion or complaint. . . . For all the defects of the Act, it still meant a tremendous break with the inhibitions of the past. The federal government was at last charged with the obligation to provide its citizens a measure of protection from the hazards and vicissitudes of life. . . . With the Social Security Act, the constitutional dedication of federal power to the general welfare began a new phase of national history.<sup>5</sup>

The assumptions behind Schlesinger's evaluation of Social Security are those he revealed years earlier. Writing in his classic *The Age of Jackson*, Schlesinger noted that "Liberalism in America has been ordinarily the movement of the part of the other sections of society to restrain the

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<sup>4</sup> Arthur M. Schlesinger, Jr., "Topics: F.D.R. After Twenty-Five Years," *The New York Times*, April 11, 1970.

<sup>5</sup> Arthur M. Schlesinger, Jr., *The Coming of the New Deal* (Boston: Houghton Mifflin, 1958), pp. 314-315.

power of the business community.”<sup>6</sup> This statement assumes that a popular movement, opposed by business, continually arises in America to challenge the one-sided power of large corporate business. But new historical research by a generation of revisionists has all but wiped out this assumption. William Appleman Williams, Gabriel Kolko, James Weinstein, and Murray N. Rothbard have argued that liberalism has actually been the ideology of dominant business groups, and that they have in reality favored state intervention to supervise corporate activity. Liberalism changed from the individualism of *laissez-faire* to the social control of twentieth-century corporate liberalism. Unrestrained ruthless competition from the age of primitive capital accumulation became an anachronism, and the new social and political regulatory measures emanating from the Progressive Era were not so much victories for the people over the interests, as examples of movement for state intervention to supervise corporate activity on behalf of the large corporate interests themselves.<sup>7</sup>

Just as all historians used to look at the accomplishments of the Progressive Era as antibusiness, equating state regulation with regulation over business, and with the assumption that corporate business opposed the new regulatory acts, so do many historians of the New Deal view the achievements of F.D.R.’s first two terms as a continuation of the Progressive tradition. The New Deal thus becomes the culmination of a “progressive” process that

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<sup>6</sup> Arthur M. Schlesinger, Jr., *The Age of Jackson* (Boston: Houghton Mifflin, 1946), p. 505.

<sup>7</sup> See especially William Appleman Williams, *The Contours of American History* (Cleveland and New York: World Publishing Co., 1961), pp. 343–488; Gabriel Kolko, *The Triumph of Conservatism* (New York: Free Press, 1963); James Weinstein, *The Corporate Ideal in the Liberal State, 1900–1918* (Boston: Beacon Press, 1969); and Murray N. Rothbard, *America’s Great Depression* (Princeton: Van Nostrand, 1963).

began with the age of Jackson. Once again, it is assumed that the "money changers" whom Roosevelt supposedly drove out of the temple were the New Deal's major opposition, and that government programs were per se progressive and part of a new phase of our history.

This analysis was stated most strongly by Carl N. Degler, when he referred to the New Deal as the "Third American Revolution." Seeing in the various New Deal measures "a new conception of the good society," Degler claimed pathbreaking significance once the "nation at large accepted the government as a permanent influence in the economy." Is such an influence sufficient to describe the New Deal as revolutionary?

To Degler it was. Like Schlesinger, historian Degler saw the Social Security Act as revolutionary because "it brought government into the lives of people as nothing had since the draft and the income tax." Yet another proof of revolutionary effect, even more important, was the "alteration in the position and power of labor." Noting that the decline in union growth had come to an end, and that the new spurt in unionism was that of the industrial unionism of the CIO, Degler argued that it was Robert F. Wagner's National Labor Relations Act that "threw the enormous prestige and power of the government behind the drive for organizing workers." The "placing of the government on the side of unionization," Degler wrote, "was of central importance in the success of many an organizational drive of the CIO, notably those against Ford and Little Steel."

In summation, the Wagner Act was depicted as revolutionary because, prior to the Act, no federal law prevented employers from discharging workers for exercising their rights or from refusing to bargain with a labor union, whereas after the Act was passed, workers had new rights against their employers. The result, according to Degler, was a truly pluralistic structure to American society. "Big Labor now took its place beside Big Business and Big

Government to complete a triumvirate of economic power." The Wagner Act particularly revealed that:

the government served notice that it would actively participate in securing the unionization of the American workers; the state was no longer to be an impartial policeman merely keeping order; it now declared for the side of labor.

Although the New Deal used traditional rhetoric, Degler asserted, "in actuality it was a revolutionary response to a revolutionary situation."<sup>8</sup>

This estimate was upheld by even such a critical historian as William E. Leuchtenburg. Although he modified Degler's analysis a degree, by noting that the Wagner Act was partially motivated by a desire to "contain 'unbalanced and radical' labor groups," Leuchtenburg agreed that the New Deal was a "radically new departure." But to Leuchtenburg, the New Deal had major shortcomings. It failed to demonstrate "that it could achieve prosperity in peacetime," perhaps its greatest failure. The fact that the unemployed disappeared only with war production meant to Leuchtenburg that the New Deal was only "a halfway revolution; it swelled the ranks of the bourgeoisie but left many Americans—sharecroppers, slum dwellers, most Negroes—outside of the new equilibrium." But, argued Leuchtenburg, it was a revolution anyway. Here, we might raise the question of what type of "revolution" is it that fails to deal with the most basic problems produced by the old order, especially when an end to unemployment was the key task confronting the first New Deal, and while there were still by Leuchtenburg's count six million unemployed "as late as 1941."<sup>9</sup>

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<sup>8</sup> Carl N. Degler, *Out of Our Past* (New York: Harper & Row, 1959), pp. 379-416.

<sup>9</sup> William E. Leuchtenburg, *Franklin D. Roosevelt and the New Deal* (New York: Harper & Row, 1963), pp. 336, 346-347.

The myth of a New Deal revolution, or a new departure, or a basic watershed, call it what you will, dies hard. New Left critics have correctly emphasized the New Deal's failures to destroy some part of the myth. But their critique, valuable as it has been, has failed to take up a more essential question. How does one confront the truth that the New Deal obviously did move in new directions, in some ways quite dramatically, and still keep the old order intact? And how is it that, although the old order remained basically untouched and even preserved, Roosevelt and the New Dealers were able to win the everlasting gratitude of the dispossessed and the white working class?

Rather than discuss all of the policies of the New Deal, we can begin to cope with this question by a more thorough look at a few key areas, particularly the National Recovery Administration (NRA), the birth of the Congress of Industrial Organizations (CIO) and the origins of the Wagner or National Labor Relations Act, and the passage of the Social Security Act. These three areas have been pointed to as evidence for the pathbreaking if not revolutionary character of the New Deal. Close attention to them should therefore prove most helpful in arriving at a more historically accurate assessment of what the New Deal wrought.

Most historians have discussed the Social Security Act in terms of what it offered American citizens for the first time, not in terms of how and why it was passed. Fortunately, sociologist G. William Domhoff has enabled us to take a new look at what lay behind some of the major New Deal reforms.<sup>10</sup> Domhoff, following the lead supplied by the New Left revisionist historians, put his emphasis on the sponsorship of major reforms by leading moderate big

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<sup>10</sup> Unless otherwise noted, material pertinent to the Social Security Act and its passage is from G. William Domhoff, *The Higher Circles* (New York: Random House, 1970), pp. 207-218.



businessmen and liberal-minded lawyers from large corporate enterprises. Working through reform bodies such as the American Association for Labor Legislation (AALL) and the Fraternal Order of Eagles, model bills for social insurance had been proposed and discussed in the United States as early as 1910-15.

These proposals had come to naught. But when the Great Depression hit, the need for reform was clear to all. The first unemployment bill in the United States passed the Wisconsin State Legislature in 1932, and it had evolved from a bill drafted by John R. Commons for the AALL in 1921. In the discussions in Washington, which eventually led to the Social Security Act, AALL members taking part included Paul A. Raushenbush and his wife Elizabeth Brandeis, Henry Dennison, and three New Dealers trained in corporate law, Charles W. Wyzanski, Jr., Thomas H. Eliot, and Thomas G. Corcoran. Wyzanski was graduated from Harvard and Exeter and was with the Boston law firm Ropes, Grey, Boyden and Perkins. Eliot was graduated from Brown, Nichols preparatory school, and Harvard College, and was a grandson of a former president of Harvard. Corcoran was graduated from Harvard Law School and was with the New York corporate law firm Cotton and Franklin.

In June, 1934, Roosevelt appointed a Committee on Economic Security, headed by Secretary of Labor Frances Perkins. It included Treasury Secretary Henry Morgenthau, Jr., Secretary of Agriculture Henry A. Wallace, Attorney General Homer Cummings, and F.D.R.'s chief aide, Harry Hopkins. They met for the purpose of working on a comprehensive social security and old-age pensions bill. Like any other committee, they depended on advisors, and among their chief aides were men identified closely with the work of the AALL. But the basic outlines of the plan were put forth by F.D.R. himself in his June 6, 1934, message to Congress. The President called for federal-state cooperation, a contributory plan rather than a government

subsidy through a tax increase, and he stressed the need for employment stabilization.

The Committee on Economic Security got to work after F.D.R.'s speech, and met eleven times. On January 15, 1935, they presented the President with their report. Two days later, Roosevelt sent his own report to Congress. Roosevelt's proposal was essentially the one prepared by corporate lawyers like Thomas Eliot, who played the major role in drafting the "bill to carry out the committee's recommendations."<sup>11</sup> Yet large-scale opposition to the proposed bill came immediately from other business circles, especially from the National Association of Manufacturers.

What is important is that liberal historians have traditionally equated the NAM and small-business opposition to social reform legislation *as* business-community opposition. They have depicted an all-out fight between the forces of big business versus the people; the former opposing and the latter supporting reform. In his book Schlesinger wrote as follows:

While the friends of social security were arguing out the details of the program, other Americans were regarding the whole idea with consternation, if not with horror. Organized business had long warned against such pernicious notions. "Unemployment insurance cannot be placed on a sound financial basis," said the National Industrial Conference Board; it will facilitate "ultimate socialist control of life and industry," said the National Association of Manufacturers. . . . One after another, business leaders appeared before House and Senate Committees to invest such dismal prophecies with what remained of their authority.

Republicans in the House faithfully reflected the business position.<sup>12</sup>

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<sup>11</sup> Edwin E. Witte, *The Development of the Social Security Act* (Madison, Wis.: University of Wisconsin Press, 1963), p. 76.

<sup>12</sup> Schlesinger, *The Coming of the New Deal*, p. 311.

Of significance are Schlesinger's last words, "the business position." This telling phrase reveals the ideological mask on reality that helps to hide the manner in which the corporate state maintains its hegemony over the country. Schlesinger not only overstated big-business opposition; he did not account for the *support* given Social Security by moderate yet powerful representatives of the large-corporation community. Particularly important is the backing given the Act by the Business Advisory Council, which formed a committee on Social Security headed by Gerard Swope, president of General Electric, Walter Teagle of Standard Oil, Morris Leeds of the AALL and Robert Elbert. These men were major corporate leaders, or as Domhoff put it, "some of the most powerful bankers and industrialists in the country."

These business leaders not only supported the proposed Social Security Act, they visited F.D.R. at the White House to counter the attack on Social Security coming from the NAM and the Chamber of Commerce. The BAC group visiting Roosevelt included:

Henry I. Harriman, retiring president of the United States Chamber of Commerce

H. P. Kendall, Massachusetts business leader

Winthrop W. Aldrich, Chase National Bank

James Rand, president, Remington Rand

W. A. Harriman, Brown Brothers, Harriman

E. T. Stannard, Kennecott Copper Corporation

F. B. Dabis, U.S. Rubber Company

Delancy Kountze, Devote and Reynolds

Charles A. Cannon, Cannon Towels Co.

R. R. Deupree, Procter & Gamble

Gano Dunn, Grace National Bank

Lincoln Filene, William Filene's Sons

Lew Hahn, National Retail Dry Goods

William Julian, Queen City Trust Company

Morris Leeds, Leeds and Northrup

Robert Lund, Lambert Pharmica Company

A. P. Greensfelder, contractor  
George H. Mead, Mead Corporation  
Sidney Weinberg, Goldman, Sachs  
H. H. Heimann, credit association<sup>13</sup>

Despite the support given the Act by these key corporate figures, the original bill was to be watered down by the Congress. This was because many congressmen and senators reflected their local constituencies, which included local antilabor and small-town mentality NAM business-types. Congress, in other words, did not have the political sophistication of the corporate liberals. Once the bill got to Congress, the setting of minimum state standards in old-age assistance was discarded, as was the concept that states had to select administering personnel on a merit basis. Workers were to contribute half of the old-age pension funds, while employers paid unemployment compensation. But the large corporations would still be able to pass the costs of their contribution to the consumer. Finally, the rich were not to be taxed to help pay for the program.

As Domhoff showed, the Social Security Act was the measured response of the moderate members of the power elite to the discontent of the thirties. These moderates took their program, based on models introduced by various corporate policy-making bodies during the previous twenty years, to the Congress. Congress, however, listened more to the NAM-type businessmen. The result was a legislative compromise between the original moderate and conservative position on the Act. Radicals among labor who wanted a comprehensive social-insurance program remained unsatisfied. It was their pressure, however, that induced the moderates to present their plan to Congress. The demands of the poor and the working class provided the steam that finally brought the modified Act to fruition.

The result, as Domhoff wrote:

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<sup>13</sup> "Business Advisors Uphold President," *The New York Times*, May 3, 1935.

from the point of view of the power elite was a re-stabilization of the system. It put a floor under consumer demand, raised people's expectations for the future and directed political energies back into conventional channels. The difference between what could be and what is remained very, very large for the poor, the sick, and the aged. The wealth distribution did not change, decision-making power remained in the hands of upper-class leaders, and the basic principles that encased the conflict were set forth by moderate members of the power elite.

Social Security may have been a symbolic measure of the new Welfare State. But, to the corporate liberals in the governing class, it served as the type of legislation that eased tension, created stability, and prevented or broke any movements for radical structural change. Hence, it served an essentially conservative purpose because it helped maintain the existing system of production and distribution.

The pattern of corporate support to New Deal programs is even more vivid when we consider the first great program initiated by the New Deal to produce recovery, the National Recovery Administration. NRA arose from a background of collectivist plans such as the one proposed in 1931 by Gerard Swope, president of General Electric. Presented to a conference of the National Electrical Manufacturers Association, the plan, as Murray N. Rothbard has described it, "amounted to a call for compulsory cartelization of American business—an imitation of fascism and an anticipation of the NRA."<sup>14</sup>

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<sup>14</sup> Murray N. Rothbard, *America's Great Depression*, p. 245. Compare Rothbard's evaluation with the contemporary estimate offered by Socialist Party leader Norman Thomas. Thomas wrote: "This proposal is a complete denial of the bases of the old capitalism, but it set up instead a capitalist syndicalism still operated for profit, a scheme which in essence is fascist." Thomas argued that Swope's plan was still "vitaly con-

Swope argued that antitrust laws had to be suspended, so that producers in a given industry could meet and agree on a certain amount of production. All companies engaged in manufacturing and commercial enterprises could form one trade association supervised by a federal commission that would outline trade practices, as well as proper business ethics. Federal legislation had to be passed that would suspend the Sherman Antitrust Law and permit manufacturers to combine for the purpose of making agreements. Swope also revealed that he favored establishment of a "national economic council" that would enable trade associations to interact and permit coordination between different industries. Companies within one industry would join together in their own trade association to coordinate production, consumption, and unemployment benefits. Each association would then elect delegates to a national body that would meet together "and choose from amongst themselves, or from outside, a national economic council."

Trade associations were the "natural organizations to study the economic elements of each industry." Each would hold itself responsible for coordination of production and consumption to stabilize industry. They would

then be the foundation stones upon which to erect the superstructure of the national economic council. This might be created by bringing together officers, or duly elected representatives of these various associations

to choose a council that would study the needs of industry as a whole. The men would come up through industry itself and would be able to work to solve their problems. "If you do that for each of the various industries," Swope commented, "and then have a similar body from the banking group, from the transportation, labor," and other

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cerned . . . to preserve private property for power and private profit," even though it "cuts the ground" from old-style competitive capitalism. Cf., Norman Thomas, *As I See It* (New York: Macmillan, 1932), pp. 38, 84.

bodies, delegates from each would meet "to form this national economic council."<sup>15</sup>

Swope hoped for a national economic council. In essence it would function through an elite group, the leaders of the different functional economic groups. Although they would make major decisions and all groups were to be represented, decision-making would remain within the hands of the elite who ruled for the society at large. Swope was seeking an end to the imbalance caused by blunt contests for power between the various groups, each jockeying for more for itself from the state's administrators. He wanted to substitute corporate cooperation and mold previously warring constituencies into one corporate body. He sought, in plain language, an American corporate state. As such, his views paralleled the developments in Italy. In that fascist country, trade associations were called corporations, and given power to regulate all operations. The corporation was to be ruled by a representative group of employers and workers. The difference was that, in Italy, three members had to belong to the Fascist Party, and the major presiding officer was to be appointed by the Prime Minister.<sup>16</sup>

During the 1930s, many liberals viewed fascist economic theory as a promising alternative to what they considered the twin evils of an unreconstructed laissez-faire capitalism and a rampant increase of socialism. To such liberals, John P. Diggins has explained, fascism

appeared to be a continuous creative effort that found its affirmation in the subordination of end to means. In its attempt to strike a balance between the dogmas of capitalism and socialism, moreover, Fascism avoided doctrinal myopia. Rejecting the fetishes of both the Left and Right, it presented an admirable

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<sup>15</sup> U.S., Senate, Senate Committee on Manufacturers, *Establishment of a National Economic Council*, 72nd Cong., 1st sess., 1932, pp. 300-301, 312-315.

<sup>16</sup> Herman Finer, *Mussolini's Italy* (New York: Holt, Rinehart & Winston, 1935), pp. 517-522.

alternative to an ironclad ideology on the one hand and a tenaciously shallow sentimentalism on the other.

To liberals, fascism appeared to be a system of planning that transcended classes and led to an equilibrium of contending social forces. Thus it was "essentially the theoretical appeals of corporatism that interested" the liberals.<sup>17</sup>

It is no accident that the early New Deal was characterized by the introduction of planning techniques that had antecedents in trade associations developed within industry during the Hoover years. Bernard Baruch's War Industries Board and the Hoover trade associations reached fruition with F.D.R.'s NRA. Men who had been involved with wartime planning were brought back to government service. "In quest of a precedent for government-business cooperation," Leuchtenburg wrote,

the draftsmen of the recovery bill turned to the experience with industrial mobilization in World War I. Swope himself had served in a war agency, and his plan was one of many . . . which drew on recollections of government coordination of the economy during the war. Since they rejected laissez-faire, yet shrank from embracing socialism, the planners drew on the experience of the War Industries Board because it offered an analogue which provided a maximum of government direction with a minimum of challenge to the institutions of a profit economy.<sup>18</sup>

William McAdoo, who had been Woodrow Wilson's Secretary of Commerce, thus wrote Bernard Baruch in 1931 to suggest a new permanent organization of a "peacetime board or national economic council" that would revise the antitrust laws. He argued that it had become apparent that government regulation "for the prevention of

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<sup>17</sup> John P. Diggins, "Flirtation with Fascism: American Pragmatic Liberals and Mussolini's Italy," *American Historical Review*, LXXI (January, 1966), pp. 497, 505.

<sup>18</sup> Leuchtenburg, *op. cit.*, p. 57.



waste, overproduction, monopolistic oppressions" was necessary for a "stabilized economic and social order." Raphael Herman agreed that there should be a "board that will function the same as the War Industries Board functioned during the War," one that could "coordinate national industries." The WIB controlled 350 different industries, Herman wrote McAdoo, "and did it well. Why could we not do it again?"<sup>19</sup>

Roosevelt undertook to repeat and build upon the experiences of the past administrations. But in building upon the past epoch, he was building upon a probusiness program. The War Industries Board, Leuchtenburg has aptly pointed out,

had, after all, been run chiefly by business executives. If they learned anything from the war, it was not the virtues of collectivism but the potentialities of trade associations, the usefulness of the state in economic warfare with the traders of other nations, and the good-housekeeping practices of eliminating duplication and waste. The immediate consequence of the war was not a New Jerusalem of the planners but the Whiggery of Herbert Hoover as Secretary of Commerce. While the war mobilization did establish meaningful precedents for New Deal reforms, it was hardly the "war socialism" some theorists thought it to be. Perhaps the outstanding characteristic of the war organization of industry was that it showed how to achieve massive government intervention without making any permanent alteration in the power of the corporations.<sup>20</sup>

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<sup>19</sup> William McAdoo to Bernard Baruch, June 10, 1931; McAdoo to Raphael Herman, June 10, 1931; Herman to McAdoo, June 8, 1931, William McAdoo MSS (Library of Congress), box 359.

<sup>20</sup> William E. Leuchtenburg, "The New Deal and the Analogue of War," in John Braeman, Robert H. Bremner and Everett Walters, eds., *Change and Continuity in Twentieth-Century America* (Athens, Ohio: Ohio State University Press, 1964), p. 129.

This significant insight holds as well for the reforms of the New Deal. As Leuchtenburg went on to state, the New Dealers also rejected class struggle, as well as "mass action and socialist planning, and assumed a community of interest of the managers of business corporations and the directors of government agencies." They feared not discredited conservatives, but the "antiplutocratic movements," or we might put it, the forces of the radical left.<sup>21</sup> Hence the New Deal cartelization efforts, which culminated in NRA.

One of NRA's major architects was Donald Richberg, who had been chosen for his position because of his prolabor background. But again, Richberg's commitment to labor lay within the framework of the corporate state. As a young Chicago lawyer, Richberg had written both the Railway Labor Act of 1926 and later the Norris-LaGuardia Act of 1932. He was chosen to help frame the NRA, Schlesinger pointed out, because Hugh Johnson wanted Richberg because "he assumed that Richberg had the confidence of labor and liberals." No other early appointment of F.D.R.'s, Schlesinger concluded, gave "more satisfaction to labor and liberals than that of Richberg."<sup>22</sup>

As a prolabor formulator of the NRA, Richberg revealed his private vision of a new corporate state, but one in which industrial unions would have to become the prerequisite for an American corporatism. "If industrial workers were adequately organized," he explained, "it would be entirely practical to create industrial councils composed of representatives of managers, investors and workers and then to create a national council composed of similar representatives of all essential industries." In this council, "all producing and consuming interests would be so represented that one group could hardly obtain sanction

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<sup>21</sup> *Ibid.*, p. 130.

<sup>22</sup> Schlesinger, *The Coming of the New Deal*, pp. 98, 106, 162-163.

for a policy clearly contrary to the general welfare." Richberg was critical of craft-union leaders. He wished they had "seized" labor's great "opportunity to organize the unemployed," and simply ignore "the hampering tradition of craft unionism" by organizing men and women "denied their inherent right to work." Labor should have demanded that "their government should no longer be controlled by rulers of commerce and finance who have utterly failed to meet their obligations." If such a movement had been built, if labor had created one "mighty arm and voice" of the "unemployed millions," Congress would have listened to the dispossessed.

Richberg also forecast the conservative role that industrial unions would play. "Let me warn those who desire to preserve the existing order," he cautioned, "but intend to do nothing to reform it, that if this depression continues much longer the unemployed will be organized and action of a revolutionary character will be demanded." To avoid that, people had to be put back to work and mass purchasing power had to be increased. The solution was to mobilize the nation "through the immediate creation of a national planning council, composed of representatives of major economic interests who recognize the necessity of a planned economy."<sup>23</sup> The need: to avoid radicalism. The means: a formal American corporate state, or the NRA.

The NRA, which became law on June 16, 1933, was the agency meant to evolve into a corporate state. The NRA, John T. Flynn perceptively noted in 1934, was based on the need of businessmen to have the government control prices, production, and trade practices. "Industry wanted not freedom from regulation," he wrote, "but the right to enjoy regulation." Modification of antitrust laws was de-

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<sup>23</sup> Donald Richberg, "Depression: Causes and Remedies," submitted February 23, 1933, to the Senate Committee on Finance, U.S., Senate, Committee on Finance, *Investigation of Economic Problems*, 72nd Cong., 2nd sess., 1933, pp. 643-652.

sired "so that employers might unite to fabricate and enforce regimentation of industry through trade associations." The NRA also developed plans for shorter working hours and payment of minimum wages; but Flynn noted that it was "pure fiction" that such legislation was forced on big business against its will. Actually, the corporations wanted the opportunity to force the NRA on the "unwilling ten percent" of smaller operators who competed unfairly by cutting costs through wage reductions. The NRA, Flynn remarked, represented almost "entirely the influence and ideal of big businessmen."<sup>24</sup>

The program of the large corporate community, as political scientist Eugene Golob put it, revealed that "the basic idea of corporatism had been accepted as part of the American scene." Defining corporatism as "the organization of the economic functions of society into groupings of labor and management for each industry," Golob noted

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<sup>24</sup> John T. Flynn, "Whose Child Is the NRA?" *Harper's Magazine*, CLXIX (September, 1934), pp. 385-394. Cf. Rinehart J. Swenson, "The Chamber of Commerce and the New Deal," *The Annals*, CLXXIX (May, 1935), pp. 136-143. Swenson similarly argued that the Chamber of Commerce program for relaxation of antitrust laws had been accomplished with the NRA, as well as that of planning through trade associations. With the exception of the collective-bargaining provision, which Swenson correctly observed "was subsequently robbed of much of its original strength," he argued with Flynn that the NRA "represented almost entirely the influence and ideal of big businessmen."

An interesting comment on the NRA was offered by A. A. Berle, Jr., "What's Behind the Recovery Laws?" *Scribner's*, XCIV (September, 1933), pp. 131-133. "The machinery of the industrial system *has* been called . . . Guild Fascism. This ignores the fact that mechanically fascism, corporate capitalism, and communism are so closely allied as to be almost indistinguishable. A committee of Communist commissars, a corporate board of directors, a syndicate of Fascists all work in about the same way."

that the term was applicable to other forms than the European fascist model. "Neither in Europe nor the United States," he pointed out, "was corporatism necessarily linked with fascism. If the corporate system was not an integral aspect of the political state, there was no theoretical reason why corporatism should be incompatible with democracy." Golob was correct when he described the NRA as "the greatest effort in history to adapt the principles of medieval guild regulation to the industrial economy of a democratic nation."<sup>25</sup>

Despite the obvious corporate origins and function of the NRA, and despite the program's clear antecedents in the War Industries Board and trade associations of the 1920s, liberals and radicals ignored the conservative heritage because of what Arthur A. Ekirch, Jr., has called

their widespread confidence in the broad nature and humanitarian goals of the New Deal's planning. Although Roosevelt proposed to use the methods of big business and of wartime regimentation, his purpose included more jobs and better working conditions along with business recovery.<sup>26</sup>

In the Senate, laissez-faire liberals led by Senator William E. Borah (R., Idaho) tried to prevent passage of the NRA, arguing that suspension of the antitrust laws would only promote the concentration of wealth and economic power. Borah, Burton K. Wheeler (D., Mont.), and Hugo Black (D., Ala.) also contended that large interests would dominate the code-making agencies and proceed to formu-

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<sup>25</sup> Eugene O. Golob, *The Isms: A History and Evaluation* (New York: Harper & Bros., 1954), pp. 97-123; quoted in Bernard Sternsher, *The New Deal* (Boston: Allyn & Bacon, 1966), pp. 157-159.

<sup>26</sup> Arthur A. Ekirch, Jr., *The Decline of American Liberalism* (New York, London, Toronto: Longmans, Green & Co., 1955), p. 275.

late agreements regarding the price of commodities. They were challenged by the Senate corporate liberals. Robert F. Wagner (D., N.Y.) angrily replied that NRA was the "first step toward that which the liberals of the country have been preparing for years." Wagner claimed that the NRA idea was part of the Progressive Party platform in 1912. It meant essentially the "necessity of a national planned economy," without which there would not be "an orderly organized economic system." He therefore favored ending restrictions on business combinations that were placed upon industry by the antitrust laws. Competition would then be put "upon a higher plane." Sweatshops would be eliminated and efficient production would prevail.<sup>27</sup>

Even after the NRA was placed under the direction of General Hugh Johnson, an old associate of Bernard Baruch's in the WIB, the corporate liberals did not become increasingly suspicious. Johnson began the campaign to have the entire nation accept the codes of fair competition to be drawn up by each industry. Under his reign the famous Blue Eagle was developed to popularize the NRA. "In the national effort to break the force of the depression via the NRA codes," Ekirch commented, "little attention was paid to the fact that it was industry itself that had largely prepared the regulations governing prices and production," and that the NRA meant "the suspension of the antitrust laws along with the whole theory of free competition and free enterprise."<sup>28</sup>

But the corporate background of the NRA was a theme always enunciated by the NRA leaders themselves. To Donald Richberg, the need of the hour was a new form of representative government based upon "the free functioning of the representatives of all interests." The nation would then have devised a "method of industrial self-

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<sup>27</sup> U.S., House, Committee on Ways and Means, *National Industrial Recovery*, 73rd Cong., 1st sess., 1933, pp. 95-98.

<sup>28</sup> Ekirch, *op. cit.*, p. 276.

control which will last long after the present experiments in political control in other nations have disappeared.”<sup>29</sup>

Richberg admitted that he had been asked to help draft the NRA because he was familiar with the operation of antitrust laws, and he understood that a consensus existed “among the managers of industry and the workers” that relief had to be gained from their existence. Agreements were needed among business to eliminate unfair practices and establish price levels, but such action was illegal under existing law. Richberg was concerned about protecting industry against the “complete uncertainty as to what could be legitimately done by a trade” association that desired stabilization of industry. Although he preferred not to compare the result of ending antitrust restrictions with European cartels, Richberg admitted that “in a general way it has that tendency,” since there would be no prosecution against industries which combined to fix prices if the prices established were related to costs of production.<sup>30</sup>

The NRA reformers, unlike our contemporary liberal historians, understood that their program was meant to be a conservative prop to the existing order. They also realized the dire need to include social reform as an essential component of the corporate state. They understood that many liberals and even political radicals would overlook the conservative origin and effect of the NRA if reform, especially public works, was offered as part of a package deal. Hence Title I of the NRA promoted the organization of industry to achieve cooperative action among trade associations, and it included the codes of fair competition and exemption of industry from prosecution under the antitrust laws. Title II set up a Public Works Association with a federal appropriation of three billion dollars. It

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<sup>29</sup> Donald Richberg, speech of November 8, 1933, Richberg MSS (Library of Congress).

<sup>30</sup> U.S., House, Committee on Ways and Means, *National Industrial Recovery*, pp. 66–69, 72.

should be understandable why Henry I. Harriman, president of the United States Chamber of Commerce, argued that there was "ample justification for a reasonable public works program" in conjunction with a corporate plan that would free industry from antitrust restrictions. If there was any doubt that the large corporations would support a program that would result in wage increases along with a fair return on dividends, Harriman assured reluctant congressmen that the "big ones will rush to it."<sup>31</sup>

But the problem was to win the allegiance not of the big ones, but of the "liberals." The means to this end was the technique of public works. Of all the New Deal reforms, public works seemed to most people to have the aura of "socialism" or at least of an attack on private interests. To the hungry and unemployed, it symbolized a direct concern by the government for their plight. That public works, as Murray N. Rothbard has shown, was introduced effectively by the Hoover Administration was unrecognized. That the New Deal's public works was of a limited nature and did not interfere with private business prerogatives went unnoticed. In the area in which public-works development was most needed, housing, the New Deal program was hardly successful and in many ways a total failure. All this was ignored. The name "public works" and the PWA itself produced a sympathetic response from the populace, the "liberal" political groups, and the organized political left.

The commitment to support reform if the liberals and radicals would cease criticism of the NRA was understood by Donald Richberg. In a private draft prepared for the committee that drew up the NRA legislation, Richberg suggested that "it would be at least a tactical error not to begin the bill with a public works program," with the provision for trade agreements following as further stimulation to industrial stabilization. "If this is not done," he ex-

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<sup>31</sup> *Ibid.*, pp. 134-153.



plained, "the reaction of the host of people expecting, advocating and convinced of the value of public works will be antagonistic to the general program." If

industrial control leads off, with public works as a secondary, incidental part of the program, it will be difficult to avoid violent opposition from those now clamoring for public works who might swallow a somewhat "fascist" proposal to get their "democratic" measure of relief.<sup>32</sup>

In using the very terms that he expected opponents to denounce the NRA with in the future, Richberg added that he was being facetious. Nevertheless, he was showing awareness that the Administration knew that reformers would acquiesce in the corporate state if reform was part of its program.

Richberg and his contemporaries, including the laissez-faire opponents of the NRA, were both correct. NRA was conservative. It is true, as Leuchtenburg wrote, that NRA gave jobs to two million workers, stopped renewal of a deflationary spiral and established a national pattern of maximum hours and minimum wages, thus wiping out child labor and the hated sweatshops. But as he added, the NRA did not speed recovery,

and probably actually hindered it by its support of restriction-minded businessmen moved into a decisive position of authority. By delegating power over price and production to trade associations, the NRA created a series of private economic governments . . . . The large corporations which dominated the code authorities used their powers to stifle competition, cut back production, and reap profits from price-raising rather than business expansion.<sup>33</sup>

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<sup>32</sup> Memorandum, n.d., 1933, Richberg MSS (Library of Congress).

<sup>33</sup> Leuchtenburg, *Franklin D. Roosevelt and the New Deal*, p. 69.

Leuchtenburg's appraisal of the NRA only confirmed the critique offered before its beginning by Borah, Wheeler, and Black. It also matched the criticism offered after the NRA's development by journalist Walter Lippmann, laissez-faire critic John T. Flynn, and the conservative AF of L labor leader, Matthew Woll. As Woll noted at the time, under the NRA codes monopoly had grown, cartelization of the economy had been encouraged, and "corporate control had been permitted to strengthen its grip upon the economic life of the nation." The cartelization of American industry taking place under the codes, he wrote, was a familiar story in the early history of Mussolini's Italy. "Are we," Woll queried, "heading toward a business Fascism?"<sup>34</sup>

Only our contemporary liberal historians, even when they acknowledge the loopholes in the New Deal programs, present the New Deal in a positive fashion. Perhaps it should not be surprising that conservatives in the 1930s had a more realistic appraisal of the New Deal and the basic function it served. Thus a conservative Chicago lawyer, Charles LeRoy Brown, wrote Donald Richberg an approving letter regarding New Deal policies. Brown was a particularly insightful conservative. Describing himself as a lifelong Republican who had become "disgusted" with the "hypocrisy and ineffectiveness" of the leadership shown by the conservative classes, Brown explained:

I think I am still a conservative, but I believe that a new set of plans is essential to preserve the conservative order of things. The trouble is that most of our business and professional friends do not understand that the old methods will not serve. New arrangements are necessary to save the economic structure. I think it is not radical, certainly not revolutionary, to change the methods of business leadership and the relations both with employees and with

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<sup>34</sup> Matthew Woll, *Labor, Industry and Government* (New York: Appleton-Century, 1935), pp. 59-63, 71-72, 171-172, 124-125.

customers . . . the methods you and your associates are inaugurating are necessary in order to retain the existing industrial order.<sup>35</sup>

Or, in the words of William Appleman Williams, our leading radical historian:

the New Deal saved the system. It did not change it. Later developments and characteristics of American society which suggest an opposite conclusion are no more than the full extension and maturation of much earlier ideas and policies that were brought together in what a high New Dealer called a shotgun approach to dealing with the depression.<sup>36</sup>

Unlike Brown and Williams, most of our contemporary historians do not seem to realize that institution of "a new set of plans" is conservative, not to speak of not being radical or revolutionary. But what happens when an area emerges where the "old methods" are entirely done away with? Can one rightly call such an area of innovation revolutionary? As Degler has argued, this is indeed the case with organized labor, and the passage of the Wagner or National Labor Relations Act. More than any other piece of New Deal legislation, the policy toward labor seemed to suggest a new revolutionary stance toward the worker on the part of government.

In reality, the role played by the Wagner Act was the same as that of the NRA and the other conservative New Deal programs. It was the Wagner Act that allowed the Administration to obtain the final integration of organized labor into the existing political economy of corporation capitalism. Unions, which had a sudden revival under the NRA, even before the Wagner Act period, were industrial in nature—the United Mine Workers and the Amalga-

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<sup>35</sup> Charles LeRoy Brown to Richberg, August 16, 1933, Richberg MSS (Library of Congress).

<sup>36</sup> Williams, *The Contours of American History*, p. 439.

mated Clothing Workers showing exceptional growth. Craft unions grew only 13 percent between 1933 and 1935, as against 132 percent by the AF of L's four industrial unions and 125 percent for their semi-industrial unions. The NRA provided the original impetus to organization. Between July and August, 1933, the AF of L issued 340 new charters to affiliated local trade and federal labor unions, and Green estimated that in two months AF of L membership increased by about 1,500,000 members.<sup>37</sup>

With the NRA, the federal government took over the traditional organizing function that had previously been an exclusive union domain. The old AF of L craft unions had refused to initiate a widespread program of unionization in unorganized basic industries. But now the New Deal was seeking a labor movement that would gain working-class support and provide the necessary structural parallel to industry that would allow integration of the labor force into the new system. The New Deal, contemporary reporter Benjamin Stolberg observed, "needed organized labor to save big business." While the NRA was a "price fixing mechanism to enable big industry to regain the control of scarcity," it needed big labor to police "the 'social planning' of stabilizing prices in an economic system" that was "partly irresponsibly competitive and partly dictatorially monopolistic." Thus the NRA turned the labor movement "into a semipublic unionism whose organization was part of a government program."<sup>38</sup>

The government became heavily involved, through the early NRA efforts, in the traditional function of union organization. The government did not tell the workers

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<sup>37</sup> James O. Morris, *Conflict Within the AFL: A Study of Craft Versus Industrial Unionism, 1901-1938* (Ithaca, N.Y.: Cornell University Press, 1959), pp. 146-147.

<sup>38</sup> Benjamin Stolberg, *The Story of the CIO* (New York: Viking, 1938), pp. 8-10, 15-18.

what form of union to organize, but only the industrial unions had any success. Moreover, it was the more politically radical unions that led the integration of labor into the corporate structure. "In short," Stolberg explained,

the socialist unions, whose militancy had been kept alive these last few years by an inner left wing opposition, fitted very easily into the drift towards state capitalism, which characterizes the New Deal.<sup>39</sup>

Not all members of the corporate elite opposed labor's new gains. But unlike the Social Security Act, which obtained an overwhelming corporate consensus for its support, many members of the governing class were not friendly to union organization. A split developed between the moderate sophisticated corporate leaders and the old-line antilabor diehards. Labor did use its own muscle to get general support behind new prolabor legislation. But, as G. William Domhoff explained:

even after acknowledging that labor showed considerable strength in forcing the acceptance of the Wagner Act, the fact remains that the story of how labor acquired its rights is a very different one from what is generally believed. A powerful mass of organized workers did not overwhelm a united power elite position. Rather, moderate members of the power elite, faced with a very serious Depression, massive unemployment, declining wages, growing unrest, and spontaneous union organizing, and after much planning and discussion, chose a path that had been traced out gradually over a period of years by the National Civic Federation, the Commission on Industrial Relations, and other pro-union forces within the power elite. By making certain concessions and institutionaliz-

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<sup>39</sup> Benjamin Stolberg, "A Government in Search of a Labor Movement: The NRA and American Labor," *Scribner's*, XXCIV (December, 1933), p. 348.

ing their conflict with labor, they avoided the possibility of serious political opposition to the structure of the corporate system.<sup>40</sup>

The leading figure among the moderates was Gerard Swope, president of General Electric. As chieftain of one of the key multimillion-dollar corporations, Swope was quite an important figure in the corporate community. Herbert Hoover had stood fast against introduction of his plan, viewing it as a stepping stone toward a business fascism. But during F.D.R.'s Administration, Swope began to get results.

As early as 1926, Swope had sought to convince AF of L president William Green to form a nationwide union of electrical workers organized on an industrial basis. He felt that having an industrial union might mean "the difference between an organization with which we could work on a businesslike basis and one that would be a source of endless difficulties."<sup>41</sup>

William Green, because he had to maintain his commitment to the craft unions comprising the AF of L, rejected Swope's pleas. Swope preferred industrial organization for one simple reason: he saw his industry "intolerably handicapped if the bulk of our employees were organized into different and often competing craft unions." They could deal easily with one bargaining agent, but not with more than one dozen. When the CIO was eventually built and the left-led United Electrical Workers began to organize General Electric, Swope rejoiced. He informed one of his vice-presidents that "if you can't get along with these fellows and settle matters, there's something wrong with you." The UEW was praised by Swope as "well led, the discipline good."<sup>42</sup>

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<sup>40</sup> Domhoff, *op. cit.*, p. 249.

<sup>41</sup> David Loth, *Swope of GE* (New York: Simon & Schuster, 1958), p. 168.

<sup>42</sup> *Ibid.*, pp. 172, 259.

The left-led leadership of UEW-CIO thought as highly of Swope. Julius Emspak, the leading organizer, recalled that Swope had a "sharp enough nose to sense a trend and see it developing." He praised him as an "enlightened" employer who had told him that the time had come when "industry would have to recognize that" a union representative should sit on the company's board of directors.<sup>43</sup>

Not only did Swope favor industrial organization, but he also supported Senator Hugo Black's bill for a thirty-hour week, as well as the minimum-wage amendment introduced by Secretary of Labor Frances Perkins. Whereas William Green opposed the amendment because he feared it would reduce the hourly earnings of well-paid skilled labor, Swope supported it because he knew that the AF of L did not represent unskilled labor. The bill was a necessity, Swope argued, since out of the "millions of men employed in industry, a very small proportion is in the American Federation of Labor." The legislation was on behalf of the unskilled worker "who needs protection . . . those who have no organization working for them." Congress, Swope said, had to act on the behalf of the "millions of men who are not members" of the AF of L and "for whom no one is talking."<sup>44</sup>

Because Swope recognized the necessity of integrating the working class into the existing corporate system, he helped develop the mechanism that would be written into the Wagner Act. It was Swope who proposed creation of a National Labor Relations Board to supervise labor relations, as well as the method of holding secret-ballot elections in factories to judge which group was the accurate representative of organized labor. It was this device that insured victory to the industrial unions in their factory

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<sup>43</sup> Julius Emspak, "Columbia University Oral History Memoirs" (Butler Library, Columbia University).

<sup>44</sup> U.S., House, Committee on Labor, *Thirty-Hour Week Bill*, 73rd Cong., 1st sess., 1933, pp. 91-111.

contests with both craft and company unions. Swope argued that a majority vote had to be binding on all workers, and he opposed the intransigence of employers who believed workers should have no voice in picking their own representatives.<sup>45</sup>

Because of his position, Benjamin Stolberg reported that Gerard Swope had "become converted to authentic collective bargaining." This was because Swope did not cherish the idea of the craft federation becoming the bargaining agent within General Electric. Then the company would be forced to deal with more than fifteen different craft unions. Swope

could not see his way clear to invite all of them to organize his highly mechanized industry, and then to watch them wreck it in "jurisdictional disputes." He wanted some sort of industrial union form of organization.

Swope again asked William Green to organize General Electric on an industry-wide basis, but the AF of L refused. "Just what Mr. Swope thought of the intelligence of our labor oligarchy," Stolberg commented, "is not reported."<sup>46</sup>

Swope understood what many contemporary historians do not. Industrial unionism was not inherently radical, and its recognition by government was not revolutionary. Rather, industrial unions functioned in the era of corporate

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<sup>45</sup> Loth, *op. cit.*, pp. 226-228. Cf., Frances Perkins, "Eight Years as Madame Secretary," *Fortune*, XXIV (September, 1941), p. 79. Secretary Perkins wrote: "The National Labor Board found that employers often refused to recognize a committee of the workers, and it was Gerard Swope of General Electric, trying to help settle a dispute in a hosiery mill, who first suggested to the employer that he allow a vote to be taken in his plant to determine whether or not the union represented his workers or a substantial part of them."

<sup>46</sup> Stolberg, "A Government in Search of a Labor Movement," p. 349.



capitalism to exert discipline on the work force so that labor productivity would be improved and cooperative relations with employers would emerge. The existence of such an industrial unionism benefited the long-range interests of the corporations. It was precisely for this reason that so many employers ignored section 7-a of the NRA, and continued to build their own company unions. They simply preferred to deal with their own unions organized industrially rather than with "legitimate" trade unions organized on a craft basis.

This preference was made clear by none other than Walter C. Teagle, president of Standard Oil of New Jersey. As a representative of industry on the NRA's Industrial Advisory Board, Teagle sought to explain why he defended company unionism—called the "employee representation plan"—as a proper form of unionism. In a report presented to Senator Robert F. Wagner, Teagle argued that "thoughtful proponents of employee representation neither predict nor desire the destruction of the union labor movement." Company unions were desirable, he argued, because an industry could avoid disputes between craft unions, "in that while it insures representation to all employees by their own associates," it also "avoid[s] jurisdictional disputes between two crafts in the same organization. Unity of action in all departments is assured." Specifically, he continued, "with many different crafts employed in the manufacture of a single line of products, it has not proved feasible to affiliate with several outside union organizations having different interests."<sup>47</sup>

Even some of the craft-union leaders, whose own bodies faced severe trouble and decline in power during the NRA

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<sup>47</sup> Walter C. Teagle, "Employee Representation and Collective Bargaining," Report of the Chairman of the Industrial Relations Committee, Business Advisory and Planning Council of the Department of Commerce (NA, RG 25), National Labor Board, NRA, Senator Robert F. Wagner's Correspondence, 1933-1934, box 84.

era, recognized that men like Teagle were not antilabor. John P. Frey, president of the AF of L Molder's union, reflected that "men like Swope, Teagle," and others "realized how close to the precipice of industrial collapse we had gone. They clearly sensed the definite turn in the road which was necessary for industrial salvation." Although Frey doubted that they had looked with favor on an increase of craft-union organization, he was sure that they

unquestionably . . . recognized that new attitudes must replace former policies, and while they probably shiver at the thought of having trade unionism develop in their plants, they dread this less than the fatal character of the competition they have been encouraging through competitors who paid materially lower wages and worked longer hours.

Having to choose between unionism and unfair competition, these industrialists felt that "unfair competition is the more dangerous of the two."<sup>48</sup> Frey's candid evaluation of the factors motivating the corporate leaders shows that these industrialists were not following a simple policy of hostility to organized labor.

As late as March, 1934, when the AF of L had already publicly attacked the NRA for spreading company unionism, Frey was still optimistic. He had more reason than other union leaders to complain about inadequate NRA code provisions, and about noncompliance on the part of employers who ignored the NRA regulations on labor. Yet he wrote that what the NRA had accomplished in "changing the employers point of view on industrial relations . . . is an extraordinary tribute to [the NRA staff's] capacity." The National Labor Board bluntly told employers to accept unions. There were many examples, Frey noted, where "employers have suddenly become more sane, seen the facts of the situation as they really are, and with-

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<sup>48</sup> John P. Frey to Walter A. Draper, July 3, 1933, John P. Frey MSS (Library of Congress).

out further argument in opposition, fall into line with the newer methods which are being applied for the basis of a New Deal."<sup>49</sup>

The key again is the term "newer methods." The New Dealers devised, in this case, a means to integrate big labor into the corporate state. But only unions that were industrially organized, and which paralleled in their structure the organization of industry itself, could play the appropriate role. A successful corporate state required a safe industrial-union movement to work. It also required a union leadership that shared the desire to operate the economy from the top in formal conferences with the leaders of the other functional economic groups, particularly the corporate leaders. The CIO unions, led by Sidney Hillman of the Amalgamated Clothing Workers, provided such a union leadership.<sup>50</sup>

It was for this reason that the moderates in the governing class pushed for passage of the Wagner Act. As Domhoff noted, the anti-union diehards did have leverage for one major reason.

From the point of view of the employers, it had to be an all or nobody proposition, for any holdouts would supposedly have the competitive advantage brought about by lower wage costs. Thus, the diehards held great power over the majority, making it ultimately necessary to legislate against them. Perhaps there is something to the claim that most employers would go along with union recognition if all their compatriots would. But not every employer would go along, which set the stage for the battle over the Wagner Act, a

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<sup>49</sup> Frey to Walter A. Draper, March 19, 1934, *loc. cit.*

<sup>50</sup> For a discussion of the corporate ideology of Hillman and the CIO leaders, see Ronald Radosh, "The Corporate Ideology of American Labor Leaders from Gompers to Hillman," in James Weinstein and David W. Eakins, eds., *For a New America* (New York: Random House, 1970), pp. 125-151.

battle which precipitated a serious split in the power elite.<sup>51</sup>

As Domhoff showed, the moderate members of the power elite played shrewd politics. After a vast amount of strikes occurred, they refused to heed the many calls for sending in troops. The result was that the diehards were forced into negotiation and compromise. Roosevelt even accused the NAM forces of trying to precipitate a general strike. But in refusing to stand with the antilabor groups, Roosevelt was not the master broker, a man who favored "a balance between business and labor"; rather, he was an

integral member of the upper class and its power elite. However, he was a member of that part of the power elite that had chosen a more moderate course in attempting to deal with the relationship of labor and capital. . . . While he did not encourage unionism, his record during the thirties makes very clear, he was nonetheless unwilling to smash it in the way the NAM had hoped to do since 1902.

Referring back to Roosevelt's prolabor ideology formed during World War I, when he was a member of the Executive Board of the National Civic Federation, Domhoff noted that when the "time came for choosing, he and the moderate members of the power elite chose bargaining rather than repression."<sup>52</sup>

One of the major architects of the act, therefore, was a highly regarded, young upper-class lawyer, Lloyd K. Garrison. Another was Francis Biddle, former lawyer for the anti-union Pennsylvania Railroad, and also the man who replaced Garrison as head of the National Labor Relations Board created by the interim Public Resolution No. 44,

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<sup>51</sup> Domhoff, *op. cit.*, p. 235.

<sup>52</sup> *Ibid.*, p. 242.

which existed between the NRA epoch and the passage of the Wagner Act. Biddle noted that Frances Perkins was satisfied with his appointment, since

our firm represented solid interests, and the country would have a feeling that the appointment was that of a man who had dealt with the practical affairs of business, an experience generally believed to make him "safe," particularly in a position where the diverging conflict between labor and industry was at white heat.<sup>53</sup>

Biddle was particularly instrumental in drawing up the Wagner Act. He felt that the NRA was at its end, and that new legislation was needed to guarantee labor the right to organize and bargain collectively. Wagner, Biddle, corporate lawyer Simon Rifkind, economist Leon Keyserling, and lawyer Calvert Magruder drew up the bill that gave the NLRB the power to prohibit unfair labor practices and to enforce its decisions.

When the hearings on the Wagner Act were held, Garrison gave an insight into the reason that some elements of the governing class favored it. Organized labor, he told the congressmen, was a bulwark against radical movements. Also, the purchasing power of labor had to be increased to get industry back on its feet. Taken together, these were two eminently conservative reasons for a major piece of reform legislation.<sup>54</sup> At the hearings, Wagner produced support from the Twentieth Century Fund, a major corporate-liberal policy group. This fund had on its board William H. Davis, a major New York corporation lawyer, as well as Henry Dennison, William Leiserson, economist Sumner Slichter, and John G. Winant. But the NAM

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<sup>53</sup> Francis Biddle, *In Brief Authority* (New York: Doubleday, 1962), pp. 7-8.

<sup>54</sup> *Legislative History of the National Labor Relations Act*, Vol. I (Washington, D.C.: Government Printing Office, 1949), p. 1505.

opposed the bill, as did Henry I. Harriman and Alfred P. Sloan, president of General Motors.

Even if a majority of businessmen opposed the Wagner Act, the moderate group within the elite was able to use political power to its own advantage. Once the Supreme Court voted in favor of the Act, the NLRB, an administrative body, became the final arbitrator of all labor disputes. This was, as Domhoff wrote, the "favorite solution of the moderate members of the power elite, the 'nonpolitical' administrative body or regulatory agency."<sup>55</sup> Thus Biddle noted that

the feature of the act attacked as the most radical was in fact the least novel—the provisions authorizing the Board to request a court to enforce its order, which derived from the Federal Trade Commission Act of 1914.<sup>56</sup>

Even before the Court decision favorable to the Act, F.D.R. had moved to conciliate diehards among the elite. Working through Thomas Lamont, Roosevelt made overtures toward United States Steel. Lamont brought F.D.R. and U.S. Steel president Myron Taylor together, and a contract with the Steelworkers was signed on March 3, 1937, one month before the Court decision. Only Little Steel held out on its anti-union course. Roosevelt similarly worked with Bill Knudsen, head of General Motors, and with Walter P. Chrysler, who backed him in the 1936 election. According to Perkins, F.D.R. was able to gain help from Averell Harriman and Carl Grey of the Union Pacific Railroad, Daniel Willard of the Baltimore & Ohio, Walter Teagle of Standard Oil, Thomas Lamont of J. P. Morgan, Myron Taylor of U.S. Steel, Gerard Swope of General Electric, and textile manufacturer Robert Amory. "It may be surprising to some people," Perkins wrote:

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<sup>55</sup> Domhoff, *op. cit.*, p. 246.

<sup>56</sup> Biddle, *op. cit.*, p. 50.

to realize that men looked upon as the conservative branch of the Roosevelt Administration were cooperative in bringing about a new, more modern, and more reasonable attitude on the part of employers toward collective bargaining agreements.<sup>57</sup>

But the final goal for which these conservative industrialists worked was the creation of an American corporate state. This was made clear in the 1960s by Leon Keyserling, who had been legislative assistant to Robert F. Wagner during the 1930s and who helped the group that formulated the Wagner Act's principles. In 1960, economist Keyserling called for a "new national agency to embody top level discussions among those who hoped that such a body would move the country away from fruitless wrangles between competing groups." He hoped that a new agency would bring the "organized powers in our enterprise system," unions and trade associations, into a "relationship of participation and concert with the efforts of government." He then noted that this was the goal fought for by Wagner during the 1930s.<sup>58</sup>

This detailed examination of the roots of the Wagner Act, as well as the NRA and the Social Security Act, should help us to assess the meaning of the New Deal. We now should be able to answer some of the questions raised earlier. First, it is clear that nonelite groups—the unemployed, workers, farmers—were the beneficiaries of many of the new social reforms. Social Security did produce benefits despite its limitations, NRA did eliminate sweatshops, and organized labor was able to strengthen its position in society. Reform, after all, would be a meaning-

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<sup>57</sup> Frances Perkins, *The Roosevelt I Knew* (New York: Viking, 1946), pp. 324-325.

<sup>58</sup> Leon H. Keyserling, "The Wagner Act: Its Origins and Current Significance," *The George Washington Law Review*, XXIX (December, 1960), p. 228.

less word if it did not have any partial effect. That is, indeed, the very meaning of reform.

But reform is not revolution. Revolution means a substantive fundamental change in the existing social structure, a massive dislocation and revamping of the existing system of production and distribution. Schlesinger's "New Left" student, if he is quoted correctly, has emphasized the wrong issue. The New Deal reforms were not mere "incremental gestures." They were solidly based, carefully worked out pieces of legislation. They were of such a character that they would be able to create a long-lasting mythology about the existence of a pluralistic American democracy, in which big labor supposedly exerts its countering influence to the domination that otherwise would be undertaken by big industry.

One cannot explain the success of the New Deal by pointing to its rhetoric. The populace responded to F.D.R.'s radical rhetoric only because it mirrored their own deeply held illusions. They could not comprehend how the reforms that changed their lives only worked to bolster the existing political economy, and they did not realize that many sponsors of the reforms came from the corporation community themselves. The integration of seemingly disparate elements into the system was successful. Labor did get its share and it did benefit from the development of a permanent war economy and the military-industrial complex. Many of those who lived through and benefited from the New Deal most likely view its accomplishments in much the same way as Schlesinger or Carl Degler. One can never be sure whether they reflect the explanations offered by the "vital center" historians, or whether these historians merely reflect the false consciousness of their own epoch.

The New Deal policies, as that conservative Chicago lawyer so aptly put it, were only a change in the way of doing things. They were a means of working out new arrangements to bolster the existing order. That so many



businessmen were shortsighted and rejected acting in terms of the system's long-term interests does not change that truth. One cannot judge the meaning of an era's policies by pointing to the opposition these policies generated. The NAM and small-business types, with their own conservative mentality, responded to the epoch in terms of the consciousness of a previous era. The moderates in the governing class had to put up a stubborn, prolonged fight until the law would be able to reflect the realities of the new epoch of corporation capitalism.

That many on the political left viewed the New Deal as "progressive" or "neosocialist" is also no clue to the meaning of New Deal policies. Like the small businessmen, the left was a victim of its own particular myths, and its support of F.D.R. cannot tell us anything about New Deal policies either. It may reveal the essential liberalism of the 1930s left, but this is another story. The failure of contemporaries properly to evaluate the epoch in which they live is traditional. One can never, as Karl Marx warned, evaluate an era by concentrating on the consciousness of an era's major protagonists. The New Deal was conservative. Its special form of conservatism was the development of reforms that modernized corporate capitalism and brought corporate law to reflect the system's changed nature. To many, these New Deal reforms seemingly proved that the system had changed its basic essentials. As we move into the era of a fully matured corporate capitalism, whose contradictions are just beginning to emerge, it has become easier to see what the New Deal accomplished. Only in an epoch where consciousness begins to soar beyond the capitalist marketplace can a critique of the major reform era that marketplace had to offer emerge. This is such an epoch. Understanding how the New Deal worked will enable us to resist policies based on further extensions of the Welfare State, and to commit ourselves instead to the collective effort to forge a socialist community in America.

# Policy-Planning for the Establishment

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DAVID EAKINS

I should like to do three things: first, define what I mean by corporate liberalism; second, very briefly present seven prestigious corporate-liberal research groups that have been of service to the establishment; and third, because there is not space to do more, to make a case study of one of those groups.

A clue to the corporate-liberal individual is given in the following descriptions. Robert Brookings, the millionaire who founded the Brookings Institution, was described by the director of that Institution:

Mr. Brookings never revealed any emotional basis for his interest in social welfare; he was not a professional uplifter; and he always retained a sense of realism. His animating philosophy—which I hope may always pervade this Institution—may best be characterized as *constructive liberalism*.<sup>1</sup>

Magnus Alexander, an engineer and assistant to the president of General Electric, and first Chairman of the Na-

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<sup>1</sup> *Robert Somers Brookings—Memorial Addresses Delivered at the Brookings Institution, May 19, 1933* (Pamphlet, Washington, D.C.: Brookings Institution, 1933), p. 20.

tional Industrial Conference Board, was described as the same sort of hardheaded reformer by one of his colleagues. Alexander always recognized sentiment as a factor, he recalled, but he

never permitted humanitarian sympathy to obscure his judgment. He understood what many men may not grasp and some will not accept—that the urge for progressive change is inherent in human nature. Rational reform must come from within, or some form of correction will be imposed from without.<sup>2</sup>

These two men are prime examples of the Progressive Era corporate liberal. The corporate-liberal doctrine that was shaped in that era was at once a compound of negative and positive elements; negative in its abiding fear of “outside” correction, which meant, ultimately, socialism. The more sophisticated corporate liberal was, in part, a liberal because he was able to acknowledge the appeal of socialism and realized that it could only be countered by a rational and moral capitalism. But a more important component in the corporate-liberal outlook than this essentially negative reaction to the socialist threat (although one that cannot really be separated from this reaction) was the positive notion that American capitalism could, in fact, be reformed. What distinguished the corporate-liberal reformer from the more traditional political-liberal reformer who proceeded from principles of humanitarianism, justice, or from even more rarified political principles, was the corporate liberal’s starting point in the needs of corporation capitalism. To the corporate liberal, American industry had to be made more rational and efficient because the unrestrained capitalism typical of the nineteenth century was simply too costly and too wasteful to endure over the

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<sup>2</sup> Charles Nagel, “Memorial Address to the National Industrial Conference Board,” October 27, 1932, *NICB—Sixteenth Annual Report* (New York: National Industrial Conference Board, 1933), p. 32.

long run. He was, in other words, a self-interested reformer.

To the corporate liberal, dishonest politicians and corruption in city, state, and federal governments were both inefficient and expensive. The reckless exploitation of natural resources was an inefficient use of a limited supply of raw materials. A dissatisfied labor force that was underpaid, harshly worked, and driven to strikes and to radical political action because its basic needs were disregarded meant extra production costs and—perhaps more important—costs that could not be calculated in advance. American basic industry could no longer tolerate the practices of the nineteenth-century type of robber barons who would hastily build a business, inflate stock beyond the earning capacity of the enterprise, bilk hapless investors, and flee with the proceeds before they themselves were caught in the falling wreckage. Large corporations meant mass sales in a national and international market. Conservative businessmen had to be concerned with the long run and with careful cost accounting. Most of all, this newly interdependent and relatively sensitive economy demanded stability. Inefficiency and waste prevented stability. A restive labor force meant instability. And a properly functioning, profitable, rationalized business society not only could, but must, eliminate these “unbusinesslike” instabilities.

But there was more to corporate liberalism than this, so far, rather straightforwardly cost-accounting approach to reform. Also implied in this view, and later made explicit by Herbert Croly and others, was a broader notion of *corporate* responsibility to a national political-economic system. This aspect of corporate liberalism saw American society as an entity made up of corporate units—business, labor, farmers, and government. The ground from which all else proceeded was corporation capitalism and the responsibility of all the corporate units to that system and its continued prosperity, or profitability; and so the busi-

ness section of this entity was by far the most important. But for the sake of the corporate whole, each unit had a real responsibility to the others. This was an American corporation that held, for example, that business needed labor and would recognize and legitimize labor (and perhaps even labor unions of the proper sort) and would grant better wages and working conditions in return for labor's cooperation and modest demands. Business would allow the government (in which the corporate units would participate) to regulate "destructive" competition and provide other standards that would increase prosperity and stability. As hardhearted as most of the corporate-liberal attitude sounds (and was), it did contemplate genuine political-economic reforms and it embodied genuinely different relations between business and labor, and business and government than had been true in the nineteenth-century American version of laissez-faire. It must be understood, however, that corporate liberalism was not the automatic outcome of a genteel academic debate. On the one hand, the corporate liberal was in constant battle with the individualist, or conservative, businessman who could not accept government as a positive force in creating corporate stability. Corporate liberalism was also, and most importantly, a product of unremitting class struggle and pressure from labor and other groups who demanded more change than reformers were ever willing to match.

The corporate liberal, then, was a reformer who was motivated by a fairly rational fear of the socialist appeal; by his own immediate interest in stability and profits; and by his understanding that the long-range stability of the capitalist structure could only be ensured through a national corporate political-economic responsibility. And he was brought to this position by outside demands. Thus it was that the corporate liberal came to advocate many of the same reforms proposed by political liberals; although, as James Weinstein has said (in *The Corporate Ideal in the Liberal State: 1900-1918*), it was the corporate liberal

who dominated and defined twentieth-century reform. But the corporate liberal's premises were, and are, very different from those of the political liberal. The political liberal based his reforms on a set of more or less abstract political principles. He defined himself as outside the existing political economy. He was for justice. He felt, at least, that he could attack or defend business at will because he was an independent arbiter or referee, detached from the system (detached, one is tempted to add, from history itself). Of the two, the corporate liberal was the only class-conscious reformer. He was, therefore, the more effective of the two.

All seven of the research groups to be discussed here were started, sustained, and, in varying degrees, staffed by corporate-liberal businessmen. At the outset most of these organizations quickly developed intimate relations with the government, business, and academic communities. Their officers and staff members came from all three of these categories—often being employed in two or even three of them simultaneously. Most of these organizations were founded in the Progressive Era in response to an increased need for facts and analyses upon which to base prudent corporate-liberal reform. There were differences between them, but they all shared the same ideology.

The National Industrial Conference Board was founded in 1916 by a group of trade associations to give the "largely inarticulate" business community its own research area.<sup>3</sup> The group feared the rise of labor, but it also wished to gather and present "facts and conditions" that would "serve to shape and to guide a normal development" of industry.<sup>4</sup> It also helped Woodrow Wilson in establishing and staffing the War Labor Board. Despite its conservatism

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<sup>3</sup> Magnus Alexander, "The National Industrial Conference Board, A Record of Ten Years of Service to American Industry, May, 1916–May, 1926," *NICB—Tenth Annual Report* (New York: National Industrial Conference Board, 1927), p. 17.

<sup>4</sup> Nagel, *op. cit.*, p. 32.

in the early postwar years and in the 1930s and 1940s, the NICB possessed a strong current of corporate liberalism. In 1926, for example, Magnus Alexander remarked that the Board

has emphasized more than ever the social responsibility of the employer to his employees and the community. It has helped to do away with class spirit, all too evident in the industry of the past, and to introduce a more human as well as a more scientific attitude into industry.<sup>5</sup>

By the 1950s this attitude became predominant and the NICB wholeheartedly joined the prevailing corporate-liberal consensus.

Unlike the overtly business-oriented Conference Board, the National Bureau of Economic Research was founded in 1920 to provide broad but basic analysis and facts that would serve as a basis for wise reforms. It was concerned with "quantification" rather than policy, and it has sustained a reputation as the purest and most scientific of all the research groups. Its relation to policy-makers has always been close, however; from its early aid to the President's unemployment conferences in the 1920s, to its studies of business cycles and how to avoid them, to studies of economic growth and how to sustain it, to directions like Arthur F. Burns and others who have been drawn into policy-making positions in government.

The Brookings Institution represented a merging in 1927 of three groups maintained by Robert Brookings. It was like the National Bureau in striving for impartiality, but it made no pretense that it was avoiding an interest in policy. But, as was true with all seven research organizations except the National Industrial Conference Board, the Brookings groups received substantial aid from the major foundations. The first Brookings group was the Institute

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<sup>5</sup> Alexander, *op. cit.*, p. 26.

for Government Research. It was organized in 1916 by corporate-liberal businessmen, government officials, and scholars who wished to improve the efficiency of the federal government in the same spirit that they had instituted municipal reform in the larger American cities. This group helped establish the first federal overview of the economy in the act that created the Bureau of the Budget in 1921. Some of these men and others came to the conclusion that government reform also included economic problems. They organized the Institute of Economics in 1922 as an agency that would explicitly attempt to influence government economic policy. Its research, the Institute announced, would also "aid the public in decisions in the light of knowledge."<sup>6</sup> The next year the Robert Brookings Graduate School of Economics and Government was set up to employ the facilities and findings of the two Institutes in training graduate students for government service. The school was to be a "workshop" in economics and government for future policy-makers. In the 1930s and 1940s, Brookings became very conservative and lost much of its earlier influence. By the 1950s it was once again solidly corporate liberal and immersed in the Washington policy-making scene.

The Twentieth Century Fund like Brookings was concerned with influencing government economic policy. It was established as a disbursing foundation in 1919 by the Boston merchant, Edward A. Filene, and the manufacturer Henry S. Dennison. Like the Brookings groups it aimed at the elimination of economic waste and proclaimed an interest in "the development of a more rational world."<sup>7</sup> It was "constituted," said its founders, "for the purpose of promoting the investigation and study of and providing instruction as to economic and industrial questions and aiding in improving the relations between employers and employees." It was to promote the investigation of "any

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<sup>6</sup> *Institute of Economics* (Pamphlet, Washington, D.C., 1922).

<sup>7</sup> *Ibid.*



and all matters" relating to civic and industrial democracy "including methods of civic and industrial organization and improvement."<sup>8</sup> For a number of years it did little original research but gave money to help establish, for example, the credit union and consumers information movements, and to support the liberal *Survey* magazine and the International Management Institute. The Fund also helped organize the Foreign Policy Association. Later on it sponsored research that anticipated or paralleled many New Deal measures. Its members were active in the New Deal and it attracted leading Democrats (and some Republicans) as officers, such as Adolph Berle, Jr., John K. Galbraith, and Arthur Schlesinger, Jr. After World War II it devoted considerable attention to studies aimed at stimulating American overseas trade and investment. The interests of the Fund have been more diverse than the other groups and its corporate liberalism frequently has been more sophisticated.

In 1934 the National Economic and Social Planning Association far outdid the other groups in experimentation and brashness. It was formed by a mixed group of scientific-management advocates, mild socialists, and still others who believed that the planning concept might become "a great unifying principle for communities which have been torn by economic and industrial strife."<sup>9</sup> In 1941 the stress on domestic economic and social planning changed to a new emphasis on postwar planning. Businessmen like Charles E. Wilson and William L. Batt (the two top officers of the War Production Board) dominated the newly named National Planning Association and many of the unreconstructed planners were dropped. The National Planning Association worked with groups like the Twentieth Century Fund and the Committee for Economic De-

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<sup>8</sup> Cooperative League, "Incorporation Papers" (Boston, Massachusetts, March 12, 1919), Vertical file, Twentieth Century Fund, Inc., Foundation Library Center, New York.

<sup>9</sup> Marion H. Hedges, "A Prologue to International Planning," *Plan Age* (September, 1937), p. 169.

velopment to plan for full employment and new ways of expanding trade after the war. Members of the group, with some CED aid, played a vital part in the enactment of the Employment Act of 1946. The Act created the President's Council of Economic Advisers. The Council's first Chairman was a former Brookings vice-president. Under Eisenhower the Council was chaired by the research director of the National Bureau of Economic Research.

In 1942 the Committee for Economic Development was created by Secretary of Commerce Jesse Jones to guarantee postwar planning by businessmen before "others are prepared with plans that may or may not embrace the business point of view."<sup>10</sup> Jones recruited members from the New Deal's Business Advisory Council, lent his top aides as organizers, and housed the new group in Commerce Department offices. CED quickly moved out on its own, however, and developed its own plans and finances. Its members agreed, nevertheless, that CED promised "a new comfort and effectiveness in the relationships of government and business."<sup>11</sup> In CED as with the other groups a union of businessmen, government officials, and professors produced a series of influential policy recommendations. CED gave crucial assistance in helping to obtain congressional approval of the World Bank and International Monetary Fund, which were intended to reestablish a stable postwar world trade. Later CED helped formulate the Marshall Plan legislation, then lent its President, Paul Hoffman, and many of its staff members to run the agencies created by the Economic Cooperation Act. By the mid-Eisenhower years twenty-five percent of all CED officers and trustees had seen government service—many of them in cabinet-level posts. And the same service was rendered to the Kennedy and Johnson Administrations.

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<sup>10</sup> Jesse Jones to S. Clay Williams, June 25, 1942 (National Archives, RG 40), Department of Commerce file no. 102517/36.

<sup>11</sup> S. Clay Williams to Jesse Jones, July 2, 1942, *loc. cit.*

Another rich source of corporate-liberal policies and manpower was created in 1950 when Columbia University President Dwight Eisenhower and the Columbia Graduate School of Business organized the American Assembly. Eisenhower's idea was to combine professors with practical men of affairs from the "outside" world in order to help solve the important problems of the nation. Or, as the public relations expert who organized the first Assembly conference expressed it, the Assembly would bring together "the best minds of the country in an effort to contribute to the solution of important practical difficulties encountered in running a country."<sup>12</sup> The Assembly drew most of its early support from businessmen who thought it would provide excellent exposure for their potential presidential candidate.<sup>13</sup> But many recognized its further value not only as a twice yearly arena for the discussion of specific issues by men of affairs, but also as a source of public education. One Assembly director, a former General Foods executive, told a business audience in 1953 that the Assembly offered a "practical tool by which sound facts and findings" could "reach a large section of the American people" on the economic issues of the day. "If we in business do not take the lead [in providing that information]," he warned, "other people will."<sup>14</sup> The Assembly later broadened its base of support, but it continued and expanded the same corporate-liberal educative function.

All seven policy-research organizations are of use to the American establishment precisely because they are con-

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<sup>12</sup> Preliminary memorandum, Fred Smith and Co., Inc., to Philip Young, December 30, 1950, *The American Assembly, 1950-1959, General and Administrative Papers*, Vol. 1 (Columbia University).

<sup>13</sup> Clifford C. Nelson, introductory comments to "Fund Raising and Fiscal Papers," *ibid.*, Vol. III.

<sup>14</sup> Edwin T. Gibson, notes for a talk to Duquesne Club, Pittsburgh, Pennsylvania, May 26, 1953, *ibid.*, Vol. III.

sidered to be objective and impartial. Their detachment has been widely, and almost routinely, accepted by the public at large. But the source of this objectivity needs to be understood. It is founded on basic assumptions shared since the 1950s by all these groups. In other words, they share the common ideology of corporate liberalism. President Kennedy said it for them in 1962, when he spoke before the White House Conference on National Economic Issues; and two weeks later he made the same point at the Brookings Institution's Public Policy Conferences for Business Executives. "Most of us," he said:

are conditioned for many years to have a political viewpoint—Republican or Democratic, liberal, conservative or moderate. The fact of the matter is that most of the problems . . . that we now face, are technical problems, are administrative problems. They are very sophisticated judgments which do not lend themselves to the great sort of passionate movements which have stirred this country so often in the past. Now [those judgments] deal with questions which are beyond the comprehension of most men . . . now they are sophisticated, technical questions which affect our economy and on which we ought to work in the closest concert.<sup>15</sup>

It is the American establishment that has achieved consensus on most of our national problems. It does believe that our problems are essentially technical in nature, and that what we mainly require, then, are technicians to provide sophisticated facts for the most efficient implementation of received policies. If the policies are assumed, then one can be objective and detached about the technical means to those unarguable ends. That is the meaning of

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<sup>15</sup> John F. Kennedy, Press Conference, May 22, 1962, in *The Public Papers of the Presidents of the United States: John F. Kennedy, 1962* (Washington, D.C.: Government Printing Office, 1963), p. 422.

corporate-liberal consensus. It is the meaning of objectivity in corporate-liberal research.

A closer look at the original premises of the most impartial research organization of them all—the National Bureau of Economic Research—will place that impartiality in historical (and in present) context.

Midway in the Progressive Era it became clear to most corporate liberals that the reforms they had supported were not sufficient to prevent a resurgence of what one historian has called a new “age of industrial violence.” Socialist strength increased in dramatic fashion in this period. Moreover, as Columbia University economist Wesley C. Mitchell told a San Francisco audience in 1915: “Dissatisfaction with the present social organization pervades *all* classes.” The changes desired are diverse, he said, but “changes of some sort are desired by all.” Some corporate liberals began to urge the creation of a federal Commission on Industrial Relations to consider the causes of and remedies for social unrest. The Commission was created and issued a report in 1915. Employers, labor, and the general public were represented on the Commission and the result, Wesley Mitchell remarked, was three reports “which disagree as to the facts of the situation and as to what should be done.” “Opinions formed after many months of professed investigation and deliberations remain at the end about what they were at the beginning.” For Mitchell, the lessons of the Commission’s endeavors were that whereas no class “should leave others to do its social thinking for it,” it was imperative that some means be found by which each class could “avoid letting its conclusions be influenced by its wishes.”<sup>16</sup> New reforms were

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<sup>16</sup> Wesley C. Mitchell, “Social Progress and Social Science,” notes for a lecture given to the San Francisco Radical Club, September, 1915, Mitchell papers (Columbia University Library).

needed; that much was clear. But to Mitchell and his friends, the paramount need was for unbiased facts about the industrial society that would provide a groundwork for sensible reform. The facts should be determined under such respectable auspices that they could be accepted by all.

The next year Mitchell met with colleagues like the economist John R. Commons; businessmen such as Malcolm C. Rorty from the American Telephone and Telegraph Company, E. H. Goodwin of the Chamber of Commerce, and Magnus Alexander. All agreed that a new sort of fact-finding organization was needed. They further agreed that the first step should be an investigation of the distribution of national income. This was, Rorty admitted, one of the most "controversial economic subjects" but, after all, what part of the national income went to each element of society was a "purely arithmetical question."<sup>17</sup>

Mitchell and his friends felt they had discovered a path to reform that would break with older patterns of class struggle. "Reform by agitation or class struggle is a jerky way of moving forward, uncomfortable and wasteful of energy," Mitchell told the American Statistical Association after the war. "Are we not intelligent enough to devise a steadier and a more certain method of progress?" He no longer referred to the importance of social classes doing their own thinking. "Our first and foremost concern," he said:

is to develop some way of carrying on the infinitely complicated processes of modern industry and interchange day by day, despite all tedium and fatigue, and yet to keep ourselves interested in our work and contented with the division of the product . . . What is

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<sup>17</sup> N. I. Stone, "The Beginnings of the National Bureau of Economic Research, A Tribute to the Memory of Its Founder: Malcolm C. Rorty," in W. C. Mitchell, ed., *The National Bureau's First Quarter Century* (New York: National Bureau of Economic Research, 1945), pp. 6-8.

lacking to achieve that end . . . is not so much goodwill as it is knowledge.<sup>18</sup>

What Mitchell was saying here was that social classes no longer needed to do their own thinking because agreement on the ends of society had already been achieved by American decision-makers. Men could be "contented with the division of the product" if the will to reform was present on the part of those decision-makers. But Mitchell assumed that it was present—that the problem was not to achieve "goodwill" so much as it was to gain knowledge of the existing political economy. After the National Bureau of Economic Research was founded (in 1920) and Mitchell was chosen as Research Director, he amplified the approach to be taken by the new organization. Unlike the abstract theorizing of the older laissez-faire economists, Mitchell insisted that the Bureau men would "find out and . . . measure the fundamental facts about the actual world." This approach was also out of tune with "those radicals among us," he said, who were mostly people "whose whole temper is opposed to the sober study of fundamental facts and to the cautious experimental policy of change which the social sciences suggest." The best way to prevent a violent social revolution from developing, Mitchell revealed, "is to develop the best possibilities of our existing institutions. And the way to do that is to study the working of these institutions without fear or favor."<sup>19</sup> Thus a study of those institutions would disclose any malfunctions that could then be corrected through the corpo-

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<sup>18</sup> Wesley C. Mitchell, "Statistics and Government," speech to the 80th Annual Meeting, American Statistical Association, December 27, 1918, cited in Arthur F. Burns, ed., *Wesley Clair Mitchell, The Economic Scientist* (New York: Columbia University Press, 1952), p. 5.

<sup>19</sup> Mitchell, "Social Problems and the Social Sciences," speech to Men's Club, Congregational Church, Norwalk, Conn., January 27, 1920. Mitchell papers (Columbia University Library).

rate liberal's "cautious experimental policy of change." The National Bureau of Economic Research would best serve national needs as an impartial gatherer of information that could, according to the NBER statement of purpose, "make its findings carry conviction to Liberals and Conservatives alike."<sup>20</sup> The organization would be of service to "men in responsible positions" who were building "wise, financial, commercial, industrial, agricultural and legislative programs."<sup>21</sup> From the outset, then, the National Bureau made clear that it was appealing to the responsible segment of the establishment. With both reactionaries and radicals excluded from the gathering of facts, and with no effort made to have those facts "carry conviction" to the dissenters, the achievement of agreement was rendered that much easier.

One indication of the ability of facts to influence reform came with the publication of the Bureau's study on income distribution in 1922. A decade earlier both radicals and liberals had called for a similar study from the Commission on Industrial Relations because they thought that it would reveal inequities that all classes would be compelled to recognize. This was the same logic employed by the Bureau. It felt that right policy would almost automatically follow from right facts. But in 1922 the National City Bank of New York in its *Monthly Newsletter* responded to the NBER estimate that seventy percent of the national industrial product went for wages and salaries by insisting that:

These figures . . . ought to be brought to the attention of everybody, and particularly of those who are disposed to be critical of the existing industrial order.

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<sup>20</sup> "NBER Statement of Purpose," *News Bulletin, NBER, Inc.* (New York, June 16, 1924), p. 2.

<sup>21</sup> NBER, *Report of the President, 1924* (mimeographed), Commons papers (State Historical Society of Wisconsin, Madison, Wis.).



How much more can the employees reasonably claim for their services as against management and invested capital?

The study proved to the satisfaction of the editors of the *Newsletter* that each class could no longer fix "its own compensation without regard to the effect on others," but must, instead, be concerned with a "right adjustment of values" that would secure "the common interest."<sup>22</sup> But to these bankers the National Bureau study proved that a right adjustment of values need not be made at the expense of *their* class.

In 1939 the Columbia University sociologist Robert S. Lynd made a slashing criticism of the prevailing social sciences. It was an effective attack against the detached research approach of the NBER and his own Twentieth Century Fund. It is a devastating charge against the sophisticated technician social scientist today. In his book, *Knowledge for What?* Lynd argued that social scientists were not taking their problems from the "fundamental cravings of the human personality." Instead, they studied the difficulties in trying to make the *existing* culture work. Many social scientists, he held, could not even act constructively on the difficulties of the existing order. Their role was "merely to stand by, describe, and generalize, like a seismologist watching a volcano."

The existing culture was "private capitalism," Lynd wrote. And it "does not now operate, and probably cannot be made to operate, to assure the amount of general welfare to which the present stage of our technological skills and intelligence entitle us; and other ways of managing our economy need to be explored." Moreover, it should be a major concern of the social scientist "to discover where and how . . . large-scale planning and control need be

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<sup>22</sup> The National City Bank of New York, *Monthly Newsletter* (February, 1922), pp. 11, 12.

extended throughout the culture so as to facilitate the human ends of living." Lynd's sharpest criticisms were directed at the NBER and his friend Wesley Mitchell. Some men, Lynd wrote, excuse themselves by saying that "science itself does not pronounce practical or aesthetic or moral judgments," forgetting that *scientists* can make such judgments. "If they fail to do so, in this world in which the gap between sophisticated knowledge and folk-thinking is so wide, they but aggravate the limitations on the utility of science to man." Moreover, some research institutions take "this abstemious scientific position," stopping their work "at the point at which culture is most in need of their help."<sup>23</sup>

Mitchell was critical of the book, but he insisted that he agreed with Lynd on the aim of the social sciences. Their value lay in "improving our culture," and that meant "developing a set of institutions better suited to the requirements of human personalities." But, for Mitchell, the "most effective way of making the social sciences serve that end" was to concentrate on the acquisition of "valid and accurate knowledge" about the *existing* institutions. "Why, for example," Mitchell asked:

do we leave so much of our labor unemployed, our industrial equipment idle, our natural resources unused, our technological skill unexercised in the United States? Once more, is it not valid and accurate knowledge of economic processes that is lacking?

One had to learn about the institutions one wished to improve.<sup>24</sup>

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<sup>23</sup> Robert S. Lynd, *Knowledge for What? The Place of Social Science in American Culture* (Princeton: Princeton University Press, 1939), pp. 185, 209, 220, 242, 250.

<sup>24</sup> Wesley C. Mitchell, "Notes for a Talk to the Economics Club, Columbia University, May 2, 1939, on Knowledge for What? by R. S. Lynd," Mitchell papers (Columbia University Library).

Lynd replied: "The question I find myself still asking about the Bureau's projects," he wrote Mitchell,

concerns the tacit assumption as to the underlying finality of our present economic "order." Of course we want to know how our economy works, but to do this effectively we require some explicit criterion—or set of them—*outside* of the economy, in terms of which the latter's "working" is appraised. I wish the Bureau could parallel its present sort of work by equally detailed analyses of such things as the overhead costs (human and dollars) of our competitive business enterprise (which would go away beyond the Twentieth Century Fund's "Wastes in Distribution") or of the processes in controlled economies such as present Germany or Russia.

. . . My feeling is that the Bureau, by working so completely on describing how things work in our economy, with *its* own (the economy's) postulates as to what things are important, tends to draw the teeth of new workers who might otherwise be inclined to ask other kinds of questions that are no less realistic and important.<sup>25</sup>

Mitchell responded by saying "we haven't the makings of a controversy" so long as Lynd meant "that the workers ought to understand the functioning of the organization they wish to better."<sup>26</sup> Mitchell seems deliberately to have misunderstood Lynd's argument. But perhaps the issue could not have been joined given the corporate-liberal consensus that was emerging even then. It was an ideology that none of the research groups could abandon and still retain its standing as an impartial analyzer for the establishment.

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<sup>25</sup> Robert S. Lynd to Mitchell, May 8, 1939, Mitchell papers.

<sup>26</sup> Mitchell to Lynd, May 9, 1939, Mitchell papers (Columbia University Library).

# James Burnham: Exemplary Radical of the 1930s

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JAMES GILBERT

America's "Red Decade," as Eugene Lyons named the 1930s, has preoccupied social and intellectual historians who have been intrigued by the Mike Golds, the Max Eastmans, and the Malcolm Cowleys, by the simplicity of crisis and response, the fervor of political positions held and then abandoned, and probably, unconsciously, by the fact that from hindsight radicalism seems safely imprisoned in the space of ten years between the Great Crash and World War II. There is drama and even tragedy in the cycle of American radicalism that was played out in that decade. Even if we reject an emphasis upon the romantic elements of the period, it would be wrong to assert that the radical experience was meaningless or limited to insignificant numbers, for many intellectuals were influenced by Marxism and the example of the Soviet Union. Radical intellectuals took themselves seriously and lent their enormous energy to building organizations and committees, to raising money, to rethinking political and economic theory, even to revolutionizing art forms. But what one might expect to flow from this activity, some strong radical influence upon domestic or foreign policy, is less easily demonstrated. On the one foreign issue that united

most radical and even liberal intellectuals, support for the Loyalist Spanish government, the Roosevelt Administration remained unmoved. Many radicals took part in New Deal programs such as the WPA, but they did little to inspire or direct such programs. Must we conclude, then, that all of this activity was fruitless, and that radicalism is important merely as a curiosity? One such interpretation, setting sharp limits to the influence of radicalism, recognizes it only as a low resonance of the period. Some historians admit to hearing thunder on the left, but reply that the revolutionary deluge never occurred: some reputations may have been splattered with Stalinism, but most intellectuals remained under the beneficent shelter of the New Deal. To others who lived through this decade of political involvement, and many who did have become leading critics, writers, and publishers, the radical years worked as a purgative, expelling innocence in favor of experience. James Burnham has written that "the *experience of Communism* may have been a necessary phase in the moral development of our generation."<sup>1</sup> Although Burnham is wrong to call this experience necessary, he is correct to dwell upon its historical significance. The problem, however, is how to assess its meaning.

If we shift our historical focus to the right, toward liberalism as I intend to do, we may still catch radicalism in the periphery where it belongs historically. We may also see its effect in a different guise, as it entered the discussion of liberalism during that decade. From this point of view, the Depression years seem neither particularly red nor unique. The search for a comprehensive liberal philosophy has been a recurring one at least since the Progressive Era. Moreover, the commitment of intellectuals to a political cause is not an unusual phenomenon. It must also be admitted that many intellectuals were interested in radicalism

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<sup>1</sup> James Burnham and André Malraux, *The Case for De Gaulle* (New York: Random House, 1948), p. 63.

in the conservative sense of fighting for the values they cherished and which they assumed were part of a moribund capitalism. This clearly is the meaning of much Popular Front activity.<sup>2</sup> Nor is the celebrated sense of realism, which so many intellectuals claimed, in any way unique. Writers and artists of the 1930s did not discover poverty or exploitation or hypocrisy, neither were they much more skillful in conveying its meaning than other generations. But the sense of historical change was particularly strong. The Depression convinced many that capitalism was degenerate and that traditional ideas about society were irrelevant if not vicious. Socialism and especially communism seemed very much a part of the future. In the light of this reaction, traditional liberal tenets of individualism, of hidden economic hands, of self-regulating economics, of abstinent governments did not seem to describe even the most obvious attributes of the advanced capitalist society. But radicalism did, and countless variations on Marxist theory or Soviet practice were offered as a way out of crisis.

If we view radicalism as outside the center of thought during the 1930s, yet always clamoring for entrance, one of its meanings becomes clearer: as a body of theories that informed liberal thought and that eventually threatened it. In the remainder of this paper, I intend to examine precisely this phenomenon through the career of James Burnham, who passed through the radical movement on his way to a new assessment of liberalism. His intellectual path shows much about the experience of intellectuals in the radical movement and helps to explain the intensely negative reaction to collectivism that occurred after World War II. As with many other intellectuals, Burnham drew upon his experience with Marxism to describe capitalism. He

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<sup>2</sup> Allen Guttman, *Wound in the Heart* (New York: Free Press, 1962), especially p. 206.

concluded from the Depression that capitalism was defunct and that history moved unremittingly toward some sort of socialism. When proven wrong by the war, Burnham searched for the vital center that had kept capitalism alive, picking and choosing among Marxist and liberal ideas to prove the strengths of the old system. Most important, he felt that Marxism and the experience of the Soviet Union exposed the virtues of capitalist society. But it was a new sort of capitalism that he felt he was describing, an economic and political society modeled upon the modern corporation.<sup>3</sup>

The influence of James Burnham has been widely acknowledged, but it is difficult to measure precisely. Burnham's prophetic books were widely discussed in the early 1940s; although almost from the time he stated his thesis of the managerial revolution, Burnham was dismissed and then later ridiculed. Arthur Schlesinger, Jr., has called him "a stock figure of our times—he is the man in a permanent apocalypse." But a stock figure is very often an important one, and in Burnham's case we may learn something of the shift of many intellectuals from a left-wing position to the right. For Burnham as for so many other men of the 1930s, their radical experiences of the period emerged as justification for a new conservatism.

Part of the background of Burnham's formulation of the managerial-revolution thesis in 1941 was an attempt to redefine liberalism in the years immediately before the first Roosevelt Administration. At the beginning of the 1930s a series of books and articles written primarily by historians, economists, and sociologists sought to reconstruct liberal theory, to set new social goals and proclaim the nonrevolutionary path to social change. This was a strange sort of

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<sup>3</sup> In this paper I use the terms "corporate society" and "corporate capitalism" to designate a society in which the corporation is the major economic institution—in which other institutions are sometimes patterned after the corporation.

discussion for there were few shared definitions, no discernible sides, no certain issues—except a general concern about the fate of American capitalism—no common forum, and ultimately, no resolution, although the argument appears settled in Burnham's pessimistic description of the managerial society. There were, in the early 1930s, certain common attitudes. Traditional liberalism was defined as unreal and useless. As Reinhold Niebuhr wrote in 1932 of the old liberalism:

Culturally, the Americans are still children of the nineteenth century. All the dogmas and illusions, the convictions and the sentimentalities of the nineteenth century—the faith in progress, the trust in democracy, and the confidence in the beneficence of competitive individualism . . .

had acted, he felt, to repress the social imagination and create injustice.<sup>4</sup> Despite the feeling that a historical era had ended with 1929, the tone of the discussion was not negative, but full of expectation, as if the Crash and the Depression had forced America upon a path of change, and it was now up to the intellectuals to illuminate the way.

There is not adequate space in this paper to mention even the various attitudes expressed in this discussion. Nevertheless, a few themes are common to the works of Adolph Berle, Gardiner Means, George Soule, Stuart Chase, Rexford Tugwell, and many others, which recur at the end of the decade as part of the managerial thesis. These ideas may all be placed under the broader proposal to collectivize the American economic and political system. In one sense or another, most of the important books and pamphlets in this discussion proposed that the corporation become responsible to the community, that it become a

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<sup>4</sup> Reinhold Niebuhr, "Catastrophe or Social Control?" *Harpers*, CLXV (June, 1932), p. 114.



public institution as it seemed to be in other countries. The conclusion that the private entrepreneurial function had declined, that competition as a device of social control was useless, that ownership was divorced from control, and that professional managers had replaced businessmen, made the socialization of industry seem necessary. As Matthew Woll of the National Civic Federation wrote: "All functional groups must come into ordered relationship with each other, developing legislative methods, contriving checks and balances, . . ." and aim toward industrial self-government.<sup>5</sup> One meaning of collectivism was that the corporation should become an economic and political unit with all of the attributes of a miniature state.

A second meaning of the new liberal collectivism was the importance of state planning for national goals, and

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<sup>5</sup> Matthew Woll, quoted in Charles Beard, *America Faces the Future* (Boston: Houghton Mifflin, 1932), pp. 34-35. A number of other books on the need for a new approach to economics, which stressed planning and collectivism, include, Harold L. Ickes, *The New Democracy* (New York: W. W. Norton, 1934), Stuart Chase, *A New Deal* (New York: Macmillan, 1932), Rexford G. Tugwell, *The Industrial Discipline and the Governmental Arts* (New York: Columbia University Press, 1933), John Dewey, *Liberalism and Social Action* (New York: G. P. Putnam, 1935), Thuman Arnold, *The Folklore of Capitalism* (New Haven, Conn.: Yale University Press, 1938), Adolph A. Berle, Jr., & Gardiner C. Means, *The Modern Corporation and Private Property* (New York: Macmillan, 1933), George Soule, *A Planned Society* (Gloucester, Mass.: Macmillan, 1932), and several others. For negative reactions to such ideas, see, for example, Francis Neilson, *Control from the Top* (New York: G. P. Putnam, 1933), Lawrence Dennis, *The Coming American Fascism* (New York: Harper & Bros., 1936), and Ogden L. Mills, *Liberalism Fights On* (New York: Macmillan, 1936). Several secondary accounts have also dealt with this discussion, including, Arthur A. Ekirch, Jr., *The Decline of American Liberalism* (New York: Atheneum, 1967), and especially, Frank A. Warren III, *Liberals and Communism: The "Red Decade" Revisited* (Bloomington, Ind.: Indiana University Press, 1966).

necessarily of political and economic centralization. The Depression seemed to cry out for new national controls over the chaotic aspects of the business world. Thus in the early 1930s, the National Civic Federation, the Chamber of Commerce, and the American Federation of Labor all agreed that some sort of planning was probably necessary and in fact imminent. The federal government would under most such schemes become a kind of giant holding company to guide the general policy of industries, the allocation of resources and laboring conditions, and, for some, the distribution of income and the social priorities of the nation.

The new collectivism also challenged the system of ethics based upon individual liberty, the keystone of an older liberalism, and called for an ethics defined in social terms, in which men were described by their dependence upon each other rather than their antagonisms. A new economic man was envisioned by these writers, who was not an entrepreneur activated by self-interest, but a man without class allegiances devoted to public interest; an arbitrator and a planner, a manager, a government administrator, a technocrat.<sup>6</sup>

The proponents of this revolutionary liberalism shared the vision of a new America built upon a new economic ethic and the transformation of the corporation into an institution responsive to public direction. The difference between traditional liberals and these proponents of the new collectivism thus seemed fundamental in the early part of the decade. During the 1930s, however, the discussion lost its momentary clarity, and by the end of the decade, the cherished collectivism was for all practical purposes a conservative smear word. The assumption that planning was inevitable and everywhere related—in other words, the

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<sup>6</sup> It is no accident that the Technocratic Movement of 1932 and 1933 preoccupied so many men who wrote on the need for planning.

identification of planning with socialism and communism—eventually condemned it by 1941 to share the same disrepute as the Soviet Union. Collectivism and planning by then seemed to many intellectuals to flow inherently toward fascism or Stalinism. With renewed prosperity and a new faith in the American economic system, which the war brought about, many liberals took a less sanguine view of planning.

The intellectual Popular Front helped bring the discussion of a new liberalism to a temporary close, yet it was the New Deal that made it apparent that social planning in America would in large measure be a variation of older forms of planning. A liberal revolution, which the collectivist discussion envisioned, never materialized. After 1934 planning was still widely discussed among liberals, but it was the radicals who preempted the subject by emphasizing Marxism and the revolutionary example of the Soviet Union. Even this, however, proved to be an interlude, for by the late 1930s liberals and ex-radicals for the most part sought to understand America in nonrevolutionary terms.

One of the most important places this discussion of the collectivist state reappeared was as the core of James Burnham's thesis of the managerial revolution. Yet Burnham's relation to the discussion in the early 1930s was oblique, because the first time he encountered it he missed the significance he would later attach to it. But after his sojourn in the radical movement, indeed partly because of it, he would lend one final, and in his view, ominous note to the whole discussion.

Little in James Burnham's early background indicated that he might later become a leading radical intellectual. Born in 1905 in Chicago, the son of a successful English immigrant father who had risen to be vice-president of the Burlington Railroad, Burnham attended Princeton where he served as an editor of the *Princeton Tiger* and as a contributor to the *Nassau Literary Review*. In addition to

an early and abiding interest in literature, he studied philosophy and went on to Oxford to receive a B.A. and finally an M.A. in that field. From 1929 and throughout the 1930s, he taught philosophy at New York University, a colleague of Sidney Hook's. Burnham's philosophic training lent vigor and sometimes logic to his views, yet more often philosophy worked against his politics. The compelling drive behind the positions he took seems to have been the feeling—very common to the 1930s—of impending catastrophe and change, and at the same time a desire for orthodoxy and stability that his brother Phillip, who became an editor of *Commonweal* magazine, may have discovered in the Catholic Church. In James, however, these drives helped interest him in Marxism.

Burnham's radicalization occurred when he and Philip Wheelwright were editing the distinguished critical magazine, the *Symposium*, from 1930 to 1933. During 1932 and 1933 he began to write on politics. For one brief period he was attracted to the Communist Party, although warily, and contributed a review to their publication, the *New Masses*. By 1934, however, Burnham's dislike for the communists led him to join the radical group led by A. J. Muste. In that same year his column began to appear regularly in *Labor Action*, the Musteite newspaper. Very soon he was a leading spokesman for Muste's American Worker's Party and in this position he pushed for merger with the American Trotskyists. When the two groups united to form the Workers' Party, Burnham quickly assumed a prominent role, writing pamphlets for the party, resolutions, and articles, even if a few members of the party distrusted him. When the Trotskyists proposed to enter the Socialist Party in 1936, Burnham was a leading proponent of the move. In 1938 he and Max Schachtman edited the *New International*, the major publication of the American Trotskyists.

Beginning in 1937, Burnham took a stand within the Trotskyist movement that would eventually split him from

that radical group. As James Cannon related it, this fight was against the centralism of the party, its organization along the Bolshevik pattern, and against the interpretation that the Soviet Union was a state controlled in the ultimate interest of the working class, whatever its shortcomings and aberrations. Almost everyone, Burnham recalled, knew of his political positions by 1937, but did not object to his remaining in the party.<sup>7</sup> When Burnham's disagreements reappeared in 1939, they occurred this time as part of a factional dispute that split the party, with the Burnham and Schachtman group taking along the *New International*. The result was the formation of a new Workers' Party, which Burnham abruptly abandoned a month after its creation. By May, 1940, he had renounced Marxism entirely. This ended Burnham's organizational ties to the left, except insofar as he operated as a kind of political mentor to the *Partisan Review*. From 1941, when he wrote the *Managerial Revolution* (New York, John Day), he gradually slipped into a right-wing position and into relative obscurity. After 1952 and his break with the *Partisan Review*, because he supported McCarthy and they did not, most of his liberal ties were broken too. In 1955 he became one of the editors of the conservative *National Review*.

From the very beginning of Burnham's career, two qualities of mind, stronger in him than in most other intellectuals, characterized his writings: he was often blinded by historical personalities and a form of hero worship; and he had a strong sense of fatalism and the permanence of crisis. Although this latter quality in Burnham often superseded all else, it was characteristic of a good many intellectuals during the 1930s who felt or hoped that capitalism was doomed and who hedged against a future of fascism or communism by adopting some elements of socialism.

In Burnham's first really political article for the *Sym-*

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<sup>7</sup> James P. Cannon, *History of American Trotskyism: Report of a Participant* (New York: Pioneer Publications, 1944), p. 254.

*posium* in 1932, after justifying his new interest, he concluded that the most important feature of current politics was the Depression and that it would remain a constant part of life in America. What gave hope to this forbidding circumstance, he discovered, was the writing of radicals such as Trotsky. In the midst of a review of *The History of the Russian Revolution*, Burnham proclaimed Trotsky a brilliant guide and a recorder of a great social event that would probably occur in America in some fashion. "We now realize clearly enough," he wrote, "that with whatever lags, in our country as well as Russia a major transition is taking place."<sup>8</sup> In a world of permanent crisis, Burnham saw a permanent revolution ahead.

Burnham still hesitated in 1933 about putting his magazine at the service of the revolution. Marxism was relevant to everything in society: "Marxism can never be merely rejected"; he explained, "there is so much in Marxism that is true and good, that if we do not accept it we must find a position that will include its true and its good." But this did not include, he felt, adoption of the prevailing attitudes toward literature and criticism among radicals expressed by the theory of proletarian literature.<sup>9</sup>

Yet in the later part of that year, Burnham and Wheelwright pushed their magazine to the left by printing the works of young radical critics such as William Phillips, and by a manifesto declaring that change was necessary and that collectivism should be its form. What Burnham had in mind is apparent from his enthusiastic review of Berle's and Means's book on the modern corporation (cited in footnote 5 above). "No more potentially important book than this in its or any allied field, has been published in this

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<sup>8</sup> James Burnham, "*The History of the Russian Revolution*," *Symposium*, III (July, 1932), p. 380. Burnham apologized to Trotsky after the exiled Bolshevik wrote to correct one of Burnham's footnotes.

<sup>9</sup> James Burnham, "Marxism and Aesthetics," *Symposium*, IV (January, 1933), p. 12.

country for many years," he wrote. The most important contribution these men made was to describe the separation of ownership and control in capitalist enterprises. But what they lacked, he concluded, was an understanding of Marx that would draw out the revolutionary implications of this fact.<sup>10</sup>

When Burnham actually joined the radical movement in 1934, his articles for *Labor Age* and later for the *New Internationalist*, among other things, worked over one old point: that capitalism was dying and that revolution was imminent. If the workers did not take power, then war, fascism, or some other calamity would follow. If the masses could organize themselves, then the next year, or two years, or three years would be decisive. Change was immediate and certain and it pointed toward fascism or communism.

It is quite likely, as Burnham suggested, that he never accepted all of Marxism or Trotskyism, despite the fact that many of his articles are indistinguishable from those written by party members who remained orthodox. Yet when he broke with Trotskyism in 1939, he was less capable of shedding certain habits of mind and assumptions that had been strengthened during his more radical period. The works that he wrote after 1940 show a surprising consistency with what had once passed as radicalism; moreover, much of the reading that he did during the 1930s in books he rejected as a radical, reappeared in his new thesis of the managerial revolution.<sup>11</sup> This is not to

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<sup>10</sup> James Burnham, "Comment," *Symposium*, IV (July, 1933), pp. 259-276.

<sup>11</sup> James Burnham, "Capitalism, American Style," *Partisan Review*, IV (March, 1938), pp. 50-53; see also, James Burnham, "Science and Style," in Leon Trotsky, *In Defense of Marxism*, Joseph Hansen and William F. Warde (George Novack), eds. (New York: Merit Publishers, 1965). In this essay attacking Trotsky, Burnham claims that he has been very consistent in his political attitudes.

suggest that Burnham was never a radical. He was. But it does say that from hindsight, there is a good deal of continuity in his views, which have special bearing on his restatement of the argument over liberal collectivism begun at the opening of the Depression.

Burnham's belated contribution to this discussion was a devastating one, for he twisted the proposals and predictions of Soule, Tugwell, Berle, Means, and others to fit them into his peculiar and sometimes frantic hypothesis. He added to this ideas taken over from European authors who had stressed the importance of bureaucracy and governing elites in modern society. The thesis of the managerial revolution proclaimed the advent of liberal collectivism, but with special significance. From his experience as a Trotskyist, Burnham concluded that this revolution was an ominous, if exhilarating, change.

Burnham began the *Managerial Revolution* (New York: G. P. Putnam's Sons, 1942) by defining the character of societies in terms of modes of production, forms of money, market regulation, and classes. In defining capitalism, he identified it with an ideology of natural rights, of automatic progress, and individualism; ideas, in other words, that clearly had little relevance as a description of the American or any other advanced industrial state. Capitalism existed nowhere in its purest form and whatever remnants still lived were about to die out. Thus far, Burnham seemed to be operating on Marxist terrain; but the whole argument went askew on two points. One was that Russia, "the chief political enigma of the past generation," was part of the same, not opposite, movement as nazism, and that fascism and communism, whatever rhetorical disputes they had, were much the same. Second, he argued, the New Deal was not capitalism and therefore it was also on the road toward the managerial society. Capitalism had ended in America, he wrote, because of government intervention in the economy. It was as if the collective revolution had everywhere succeeded and the technocrats would inherit the earth.



Burnham's managerial class was the same as Berle's and Thurman Arnold's; men, whatever their ideas, who ran society, the scientists, managers of corporations, and bureaucrats. His theory was a hodgepodge of Berle and Means, of the Italian sociologist Vilfredo Pareto (over whom there was some stir in 1936), of Trotsky's theory of the Soviet bureaucracy, with echoes of Arnold, Soule, Arnold Toynbee, and others, plugged into a scheme of class struggle and inevitable change. To say this is to suggest that Burnham included in his theory a sampling of several diverse shades of thought from the decade. Yet there is an important consistency and direction to what he said.

Most critics did not miss the implications of his insistence upon the inevitability of the new society and his poorly disguised admiration for the new managers. Dwight Macdonald and George Orwell, for example, attacked him for classifying communism and fascism as variants of the same movement and refusing to take a stand against either; of worshiping evil because of cowardice. Burnham's contention that socialism was impossible and that democracy never really existed infuriated his radical critics. Yet another fact about the *Managerial Revolution* now seems more important, particularly in the light of Burnham's later intellectual development. Ostensibly a book about a worldwide movement of which Nazi Germany and Communist Russia were the most fully and clearly developed examples, the book is really a discussion—and a not particularly acute one—of American corporate society and the similarities between liberal theories of planning and centralized government and fascism and communism. Most significant was the identification of the New Deal with collectivism and the comparison of the American economic system with Soviet Communism, which Burnham had always opposed. Here, it seems clear, is the key to his later plunge to the right.

Fortunately for the historian, Burnham in a sense

printed his notes for the *Managerial Revolution* in his next book, *The Machiavellians*. Here, many of the implications of his first book became clearer. Georges Sorel, Robert Michels, Vilfredo Pareto, his Machiavellians, were so named because they were realists and found struggle to be a fundamental aspect of society. Above all, they knew that elites always governed society. Political freedom when it existed, wrote Burnham, "is the resultant of unresolved conflicts among various sections of the elite." Tyranny came from the aggrandizement of the state.<sup>12</sup> Burnham was at once more explicit and more sweeping in his rejection of modern liberalism, and more cynical about the creation of some sort of democratic equilibrium. Although his philosophic stance was negative, always defined in terms of what he opposed, he had begun to write himself back to a conception of laissez-faire liberalism.

The final link in Burnham's development was forged in an article, "Lenin's Heir," written for the *Partisan Review* in 1945. Here Burnham's peculiar attraction and repulsion for Stalin, whom he called Lenin's direct and legitimate heir, was apparent. Stalin was a great and awesome figure, worthy of comparison to the tsar, and deserving of respect and fear. Russia's emergence from the war as a great power, a shift in the world balance of power little expected by Burnham, redefined his whole approach to world politics. It transfigured his theories, and changed his fear of communism into a nightmare of total war against Russia, which he fought in the imaginary battles and strategies of his next books.<sup>13</sup>

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<sup>12</sup> James Burnham, *The Machiavellians: Defenders of Freedom* (New York: John Day, 1943); and James Burnham, "Is Democracy Possible?" in *Whose Revolution?: A Study of the Future Course of Liberalism in the United States*, Irving D. Talmadge, ed. (New York: Howell, Soskin, 1941), p. 195.

<sup>13</sup> James Burnham, "Lenin's Heir," *Partisan Review*, XII (Winter, 1945), pp. 63-72.

With a kind of childlike logic, he called for total war against communism abroad and denounced any toleration of communists in America. Under current circumstances, he wrote in the 1940s, freedom of speech for communists created, in effect, a Popular Front. Thus it was perhaps inevitable that he would support McCarthy, and finally, by 1964, write a long tract (*Suicide of the West* [New York: John Day]) describing liberalism as the "ideology of Western suicide." This last book, which self-consciously reaches back to identify with his earlier works, is a last variation on Burnham's attack on postwar world society. There was little in society that seemed to be positive in the values it expressed, and only by inference may we conclude that Burnham has retreated to a laissez-faire world—with one important twist. He rejected the optimistic premises of such a world and denied a faith in progress. In his long intellectual progression, Burnham had discovered, he felt, a fundamentally new interpretation of modern industrial society. Much as he misunderstood its function, he was right to focus on the corporation as the basic economic institution in capitalist society. Yet his search for orthodoxy ended when he rejected the new society and returned to an idea he had expressed in his first important political article. Individualism, he wrote, was not a bad thing:

The qualities that enable the successful individual to rise are perhaps not the most commendable; but granted that everyone has enough, the ability to get more is perhaps as good a test as any of those who ought to get more.<sup>14</sup>

Burnham's significance, aside from the influence he had on other intellectuals during the crucial period of radical decline, from 1939 to 1941, is perhaps as an example. The

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<sup>14</sup> James Burnham, *The Struggle for the World* (New York: John Day, 1947), pp. 159, 175–180; Burnham, *Case for De Gaulle*, p. 55; and *idem*, "Comment," *Symposium*, III (April, 1932), p. 146.

peculiarities of his attitudes, so widely noted, are of course important. So are the mistakes, the logical traps he set for himself, and his false predictions. Yet his career illustrates that the movement from left to right that was typical of so many American intellectuals during the 1930s and 1940s—even if Burnham went farther than most—had a kind of logic. His “experience with communism,” helps to explain and define his new conservative philosophy. Significant also is the fact that he broke openly with one wing of liberal thought, represented by the *Partisan Review*, as late as 1952, although it was perhaps they and not he who covered the greatest political ground in the dispute by pulling back from unrestrained anticommunism. It is striking that Burnham remained so long at the outskirts of the liberal intelligentsia, a fact that illustrates how far the reaction of many American intellectuals against communism could carry their political opinions.

Burnham’s radical middle period had a number of lasting effects on his thought. It reinforced his assumption that the important structural features of society were easily describable, and that societies could be understood best as systems. Marxism became a kind of intellectual well out of which he drew the sour examples to describe the end of Western society and capitalist individualism. It is clear that Marxism for Burnham always meant economic determinism, and that the fatalistic quality implicit in such an assumption, its dependence upon catastrophe, reinforced the apocalyptic visions that filled his mind. His acquaintance with Marxist theory and his concentration as a Trotskyist upon the distortions of the Soviet experiment, especially as the theory of Marxism and the practice of Russia were understood in the 1930s, cemented the idea that planning, state control, and centralization were all attributes of socialism. When Burnham was overwhelmed with hatred of Russia, those ideas, which were really only a weak approximation of socialist planning, were also cast aside. He eventually rejected almost anything that had even

a faint smell of socialism about it. Finally, Burnham's Trotskyist experience helped prepare his path to the right. Two tendencies that it consistently exhibited were also at the foreground of his mind. One was Trotsky's radical critique of Stalinism and his emphasis upon the bureaucratic features of the new society. Casting aside subtleties, for which Burnham often had little concern, there is not a great deal of distance between Trotsky's theory and Burnham's, whatever the vast implications were in terms of action. The aggressiveness of the Trotskyists in actively opposing the Russian Communists helped prepare Burnham for his own violent attitude toward the Soviets. Finally, Trotskyism's opposition to the New Deal, its refusal to compromise with liberalism, its attack upon the Popular Front as such a compromise (an attack written by Burnham), and its realization that liberalism was a defense of capitalism were all ideas that Burnham transposed into a conservative key. Burnham was consistent in opposing modern liberalism, and this stance eventually led to his assertion of an older form of individualism. Burnham's long search for a radical orthodoxy, his lust for catastrophe led him ultimately to the negative utopianism of the discouraged, and left him a lone seeker for a society that could no longer exist.

# American Foreign Policy and National-Security Management

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LEONARD P. LIGGIO

National-security management is a twentieth-century phenomenon. It is a product of three major factors in contemporary political development: technology, public opinion, and popular revolution. Technology has meant rapidity of communication—the ability to move both information and persons in short periods over great distances around the globe. The factor of public opinion is related to the increased rapidity of communication. Political leaders are required to be quickly responsive to public opinion formed by quick information. The political leaders' response is control of information, and the control and manipulation of public opinion. Finally, and related to communication and public opinion, is the development in the twentieth century of politics as a successful challenge not merely to the particular men in power, but also to the social status quo.

When foreign relations, wars, and peace conferences existed in the context of nonchallenge to the basic social system—mere rivalries between exploiting units whether states or corporate monopolies—there really was no role for national-security management because that role is profoundly ideological and requires a challenge against the

existing ideology to be operative. An ideological challenge did arise in the midst of World War I. It was the result of two interrelated developments: American entry into the war, and the Russian Revolution.

Previous to American entry into World War I, the leaders of the Allies and of the Central Powers did not conceive of the conflict in terms of total ideology. There were people on both sides who did so and they were used by the leaderships as an aid in maintaining support for the war effort. But the leaderships were willing and even anxious to negotiate a peace with the opposing governments if their adversaries made the concessions necessary to fulfill their war aims. There was no demand for unconditional victory and the transformation of the political system of the adversary. This was radically changed with the American entry into the war.

The prolonged nature of the war in Europe had intensified the reasons for and against the entry of the United States. Since the domestic political situation had required Woodrow Wilson, in the 1916 presidential election, to emphasize his peaceful intentions, the President's introduction of a war effort into American life a few months later required strong actions to reverse public peace attitudes. Thus, the Central Powers were not treated as temporary military adversaries, but were defined as the Ultimate Evil. A major part of the problems, domestic and international, that faced the countries of the world was related to the existence of this Ultimate Evil; the total elimination of the Ultimate Evil would solve these problems.

The war effort took on the character of a crusade with all of its ideological implications. Some aspects of the crusade involved self-celebration; American democracy as an abstraction was emphasized without any regard for the elements that historically created it and that would be violated in the name of the abstraction. A vital part of this self-celebration was the objective of re-creating this democracy in the abstract in other countries, and especially in the

major countries that had been subjected to autocratic regimes—the Central Powers and Czarist Russia. Thus, the February Revolution in Russia was a very significant event in the crusade ideology of the American government.

The February Revolution eliminated the major obstacle on the Allied side that made it difficult to characterize the Central Powers as the sole Ultimate Evil for the benefit of public opinion. The February Revolution seemed to justify the view that American democracy in the abstract could be re-created in one of the former autocratic regimes. Of course, for the American opponents of intervention, the February Revolution led to a different conclusion: a new regime in Russia would initiate the negotiations that would cause a peace settlement between the two sides without unconditional victory, American intervention, or immediate social change. Thus, the February Revolution highlighted a major distinction between the interventionist and noninterventionist positions in American politics—whether or not war was a positive force for social change in the world.

The interventionists viewed American society with satisfaction and thought that war made it possible to maintain at home and to extend to other peoples what satisfied them. The isolationists viewed American society with dissatisfaction and felt that war would maintain or increase what dissatisfied them. Senator Robert M. La Follette's (R., Wis.) speech in opposition to Wilson's speech calling for a declaration of war in April, 1917, shows the differences very clearly. In contrast to Wilson's "idealism," La Follette recognized that war and militarism would contribute to the decline of American liberalism. War and militarism enhanced executive leadership, which was incompatible with liberalism. La Follette called on his fellow senators to vote on the basis of conviction and not on the basis of presidential leadership:

Quite another doctrine has recently been promulgated by certain newspapers, which unfortunately seems



to have found considerable support elsewhere, and that is the doctrine of "standing back of the President," without inquiring whether the President is right or wrong. . . . If it is important for us to speak and vote our convictions in matters of internal policy, though we may unfortunately be in disagreement with the President, it is infinitely more important for us to speak and vote our convictions when the question is one of peace or war, certain to involve the lives and fortunes of many of our people and, it may be, the destiny of all of them and of the civilized world as well. . . .

This is the question that neutral nations the world over are asking. Are we seizing upon this war to consolidate and extend an imperialistic policy? . . . It is suggested by some that our entrance into the war will shorten it. It is my firm belief, based upon such information as I have, that our entrance into the war will not only prolong it, but that it will vastly extend its area by drawing in other nations. . . . Just a word of comment more upon one of the points in the President's address. He says that this is a war "for the things which we have always carried nearest to our hearts—for democracy, for the right of those who submit to authority to have a voice in their own government." In many places throughout the address is this exalted sentiment given expression. . . . I am not talking now of the merits or demerits of any government, but I am speaking of a profession of democracy that is linked in action with the most brutal and domineering use of autocratic power. Are the people of this country being so well represented in this war movement that we need to go abroad to give other people control of their governments? Will the President and the supporters of this war bill submit it to a vote of the people before the declaration of war goes into effect? . . .

The espionage bills, the conscription bills, and other forcible military measures which we understand are being ground out of the war machine in this country is the complete proof that those responsible for this

war fear that it has no popular support and that armies sufficient to satisfy the demands of the entente allies can not be recruited by voluntary enlistments. . . .<sup>1</sup>

La Follette's strongly stated opposition to American intervention led to a demand in the press that he be expelled from the Senate and he was subjected to a senatorial investigation committee. From opposition to entry into the war it was natural for isolationist spokesmen such as La Follette to criticize sharply the American intervention in the Russian Revolution; La Follette was labeled the "Bolshevik spokesman in America." The Soviet Revolution of October, 1917, was a product of the profound shock to Western society administered by the first modern total war. The Soviet Revolution represented a major challenge to the expansionist democratic ideology that was pursued by the Wilson Administration. The model of re-created American democracy, which the February Revolution was believed to have initiated, was replaced by a model of social revolution that was feared as imminent in all the Western countries. The disappointment for Wilsonian "idealism" was monumental. Unable to reverse the developments in Russia, the Wilson Administration incorporated the Soviet Revolution into the conceptualization of Ultimate Evil represented by the Central Powers. The Bolsheviks were defined as the conscious and directed agents of the Central Powers' decision-makers. Thus, the original interventions by American forces in Archangel and Siberia were made in the last summer of the war as part of the world strategy of defeating the Central Powers in the form of their local Russian operatives, as conceived by the Wilsonians, the Bolshevik Party. Thus, when World War I ended, there was an easy transferral to the Bolsheviks of the Ultimate Evil con-

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<sup>1</sup> Arthur A. Ekirch, Jr., ed., *Voices in Dissent, An Anthology of Individualist Thought in the United States* (New York: Citadel Press, 1964), pp. 211-220.

ceptualization when social revolution did begin to sweep much of central Europe—Germany, Hungary, and Austria. The major part of the problems, domestic and international, that troubled countries of the world and that was supposed to disappear with total victory over the Central Powers could be explained in terms of the existence of the Soviet Revolution as their successor. Total elimination of this Ultimate Evil would be the solution to these problems.<sup>2</sup>

The Soviet Revolution was a challenge also because it eliminated a major unit in the world production of raw materials and in international loans. Secretary of State Robert Lansing insisted:

Russia is among the largest factors in the complicated system of production and distribution by which the world is clothed and fed. It is not to be expected that economic balance can be regained and living costs brought once more to moderate levels while its vast area [is under the revolution].<sup>3</sup>

Thus, the United States government identified its own prosperity with the stability and availability of raw-material production and markets around the globe. Again, the Soviet Revolution was a challenge as a model for revolution by other countries in a similar position in the world economy.

However, for American national-security managers of the Wilson Administration, the concept of the Soviet

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<sup>2</sup> H. C. Peterson and Gilbert C. Fite, *Opponents of War, 1917-1918* (Seattle: University of Washington Press, 1968), pp. 67-72; Arthur A. Ekirch, Jr., *The Decline of American Liberalism* (Toronto: Longmans, 1955), pp. 215-220; William Appleman Williams, *The Tragedy of American Diplomacy* (New York: World Publishing Co., 1962), pp. 86-102; William Appleman Williams, "American Intervention in Russia: 1917-20," in David Horowitz, ed., *Containment and Revolution* (Boston: Beacon Press, 1967), pp. 26-70.

<sup>3</sup> N. Gordon Levin, Jr., *Woodrow Wilson and World Politics, America's Response to War and Revolution* (New York: Oxford, 1970), pp. 235-236.

Revolution as the Ultimate Evil was focused on Central and Eastern Europe as social revolution spread there at the end of World War I. When the feudal and military bureaucracies of central Europe were on the verge of overthrow by revolutionary movements, the Wilsonians sought to prevent revolutions while replacing the old bureaucracy with a new liberal bureaucratic and mercantile leadership. Thus, the American decision-makers—president, secretary of state, presidential advisers, and military planners—in Paris for the Versailles Conference were able to apply American economic and military power in Europe to facilitate and support the transfer of cabinet positions to the socialist leaders who acted as “an ideal foil against revolutionary and anarchist excesses” of social revolutionaries. This role played by liberals and socialists as wardens against social revolution in 1919 is reminiscent of John Kennedy’s summarizing of American policy with reference to the Dominican Republic:

There are three possibilities in descending order of preference, a decent democratic regime, a continuation of the Trujillo regime or a Castro regime. We ought to aim at the first, but we really can’t renounce the second until we are sure that we can avoid the third.<sup>4</sup>

Similarly, the Wilsonians found themselves supporting reactionary and oppressive regimes to prevent the success of social revolutionaries—Kolchak in Siberia, Horthy in Hungary, etc. In Russia during the Civil War and in postwar Central Europe the role of food was crucial and the United States used its relief operations headed by Herbert Hoover to try to establish the governments it

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<sup>4</sup> Arno J. Mayer, *Politics and Diplomacy of Peacemaking, Containment and Counterrevolution at Versailles, 1918–1919* (New York: Knopf, 1967), pp. 10–22; Richard J. Barnet, *Intervention and Revolution, The United States in the Third World* (New York: World, 1968), p. 158.

desired and to defeat those it opposed. American advisers in both World Wars and the Cold War—often the same people, such as Allen and John Foster Dulles (nephews of Secretary of State Lansing), Bernard Baruch, and Herbert Hoover—viewed American postwar economic aims as twofold: using economic power to prevent the rise or success of revolutionary movements, and improving the long-term economic position of United States government-supported corporate interests around the world. Arno Mayer has noted:

Admittedly Hoover had the most precocious, integrated, and operational conception of the politics and diplomacy of foreign aid. But he merely articulated and synthesized ideas and programs which were just then crystallized in influential segments of the American power elite.<sup>5</sup>

Hoover's role as well as that of other Wilsonians in using foreign aid for Administration political and economic objectives was related to the direct military interventions by American and other Allied forces by American critics of the Administration. Senators William Borah of Idaho and Hiram Johnson of California, leading insurgent Republican foreign policy experts, singled out the Wilson Administration's role in Russia for major consideration. Late in 1918 and early in 1919, they initiated a campaign against the American forces' intervention in Archangel and Siberia. Despite the growing debate concerning the peace conference in Paris and the proposal for the League of Nations, Borah and Johnson made the demand for recognition of the Soviet government and the withdrawal of American forces the center of their attention. The intervention of American military forces in Russia against the Soviet Union was emphasized by Borah and Johnson in the debate over the League of Nations and the Versailles

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<sup>5</sup> Mayer, *op. cit.*, pp. 24–28, 263–279.

Treaty as an example of the role that the United States would play around the world, as international policemen, should League membership be adopted. "Borah often alluded to the situation in Russia as a preview of things to come should the United States join the organization."<sup>6</sup>

Citing Russia, where Japanese, British, French, and American troops were working to overthrow the Bolshevik government, the Senator looked ahead to the time when such operations would become commonplace. He anticipated that the League would be used as a cloak of respectability to protect the status quo everywhere. Denouncing efforts to "underwrite the world" as impossible and undesirable, Borah predicted that what had happened in Russia, Mexico, and China would occur, sooner or later, all over the globe. He regarded emergent nationalism as the irresistible force of the twentieth century and despised the idea of placing the United States on the side he thought fated to lose.<sup>7</sup>

Critics of national-security management viewed the Versailles Treaty and the League of Nations as the foundation for an inevitable second world war. The *New Republic* said of the treaty: "THIS IS NOT PEACE. Americans would be fools if they permitted themselves to be embroiled in a system of European alliances." The League's power to threaten the use of force in preservation of the status quo established under the treaty for the benefit of the major imperialist founders of the League increased the disquiet of

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<sup>6</sup> *Ibid.*, pp. 331-339; Robert James Maddox, *William E. Borah and American Foreign Policy* (Baton Rouge: Louisiana State University Press, 1969), pp. 41-46, and Maddox notes (p. 46): "By mid-February a Johnson resolution calling for withdrawal of American forces was defeated only by Vice-President Thomas Marshall's tie-breaking vote"; Ralph Stone, *The Irreconcilables, The Fight Against the League of Nations* (Lexington, Ky.: University Press of Kentucky, 1970), pp. 15-21, 39-41.

<sup>7</sup> Maddox, *op. cit.*, p. 61.

the critics. Oswald Garrison Villard, the publisher of the *Nation*, wrote to Senator La Follette:

The more I study it, the more I am convinced that it is the most iniquitous peace document ever drawn, that it dishonors America because it violates our solemn national pledge given to the Germans at the time of the Armistice and because it reeks with bad faith, revengefulness and inhumanity. It is worse than the Treaty of Vienna . . . it not only retains the old and vicious order of the world, but makes it worse and then puts the whole control of the situation in the hands of four or five statesmen—and, incidentally, of the International Bankers. To my mind it seals the ruin of the modern capitalistic system and constitutes a veritable Pandora's Box out of which will come evils of which we have not as yet any conception.

Villard believed that the League would encourage the imperialist powers to refuse to solve international problems by peaceful means because the League would give them the sanctity of legality when other countries sought to terminate injustices. For Villard, the League enshrined and prevented the peaceful ending of the whole imperialist system that the national liberation movements in China, India, Egypt, Africa, and Latin America were striving to destroy.<sup>8</sup>

Borah felt that the instruments of American national-security management—gunboat diplomacy, Marine pacifications, military coups, and major interventions by American forces as in Russia—would find frequent use as well as sanctification under the League. The decision-makers in Washington would have greater rather than less reason to apply the methods that combined statements of “morality” and “legality” with the power of military force. Most

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<sup>8</sup> Ekirch, *American Liberalism*, pp. 226–228; D. Joy Humes, *Oswald Garrison Villard* (Syracuse: Syracuse University Press, 1960), pp. 223–228.

disquieting to Borah was the cover that the League would give to decision-makers always unwilling to trust public opinion.

Now the President advocated a program which would remove diplomacy even further from popular control. The same men who previously had sent Marine contingents to Latin American republics at the request of New York bankers would now huddle in closed sessions with their counterparts from other nations. And the Senate, robbed of its deliberative function in the area of foreign affairs, would have to accept the agreements made or be accused of bad faith.<sup>9</sup>

Critics of national-security management during the debate on the League of Nations were subjected to intense attacks by the newspapers supporting the Administration. Borah was designated the "Proletarian Commissar," while Johnson was described as a "Spartacide." As a group they were called the "Legionnaires of Death," the "Soviet of Eight," and the "Republican Communists."<sup>10</sup> However, William Appleman Williams has provided a more balanced and penetrating analysis of Borah and the leading critics of Wilsonianism:

At the other extreme was an even smaller group of men who were almost doctrinaire laissez-faire liberals in domestic affairs and antiempire men in foreign policy. Led by Senator William E. Borah, they made many perceptive criticisms of existing policy. . . . The argument advanced by Borah and other antiempire spokesmen was based on the proposition that America neither could nor should undertake to make or keep the world safe for democracy.

. . . And even if it were possible to build such an

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<sup>9</sup> Maddox, *op. cit.*, p. 60.

<sup>10</sup> Stone, *The Irreconcilables*, p. 159; cf. Ray Tucker and Frederick R. Barkley, *Sons of the Wild Jackass* (New York: Books for Libraries, 1970), pp. 70-122.



empire, they concluded, the effort violated the spirit of democracy itself. Borah provided a classic summary of these two arguments in one of his speeches attacking the proposal to clamp a lid on the revolutionary ferment in China after 1917. "Four hundred million people imbued with the spirit of independence and of national integrity are in the end invincible." . . . He concluded that a rapprochement with the Soviet Union was "the key to a restored Europe, to a peaceful Europe." In addition, he thought that the United States could play a crucial role in creating the circumstances in which there could "emerge a freer, a more relaxed, a more democratic Russia." ". . . So long as you have a hundred and fifty million people outlawed in a sense, it necessarily follows that you cannot have peace." . . . Of all Americans, the group around Borah most clearly understood the principle and practice of self-determination in foreign affairs. For that reason, as well as other aspects of Borah's criticism, President Wilson singled out Borah as his most important critic—as the man who might turn out to be right.<sup>11</sup>

In the postwar period American national-security management was concentrated on Central America and the Caribbean, and on the Far East. Thus, there was continuity of the policies of interventionism in the Administrations of Theodore Roosevelt and Woodrow Wilson. An important example was Nicaragua. Henry Stimson, who learned the application of American power in Central America when he was Secretary of War from 1911 to 1913, arrived in Nicaragua as special commissioner, the ultimate result of this American intervention being the rise of the Somoza dictatorship. After holding the governor-generalship of the Philippines (where he worked for the rejection of legislation for Philippine independence), Stimson became Hoover's Secretary of State. There Stimson's principal activity concerned the relations of Japan with

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<sup>11</sup> Williams, *op. cit.*, pp. 118–122.

regard to Manchuria. President Hoover feared that Stimson's attitude toward Japan—the Stimson Doctrine—would invite war with Japan. For Stimson, nonrecognition of territorial changes made outside of treaty obligations was not an alternative to military and economic sanctions as advocated by Hoover. Rather, it was

a preliminary to economic and military sanctions, a way of drawing sharp the issue between the United States (along with the League of Nations) and Japan, a means of laying down the ideological grounds for war if, as he expected, war eventually should come. That was the Stimson doctrine—or, perhaps, the Stimson-Roosevelt doctrine.

In the months before Franklin Roosevelt's inauguration in March, 1933, Stimson viewed himself as "Roosevelt's acting Secretary of State," and Roosevelt adopted Stimson's foreign policy views and made them the basis of New Deal foreign policy, especially in the Far East.<sup>12</sup>

Similarly, Stimson's policy toward Cuba, which, like Nicaragua, he defined as moving toward communism led the new Roosevelt Administration to replace a radical administration with Fulgencio Batista, as, in the words of Undersecretary of State Sumner Welles, "the only individual in Cuba today who represented authority." The

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<sup>12</sup> Richard N. Current, "The Stimson Doctrine and the Hoover Doctrine," in William Appleman Williams, ed., *The Shaping of American Diplomacy* (Chicago: Rand McNally, 1956), II, pp. 690-706; William L. Neumann, *America Encounters Japan* (Baltimore: Johns Hopkins Press, 1963), pp. 228-289; William L. Neumann, "Determinism, Destiny and Myth in the American Image of China," in George L. Anderson, ed., *Issues and Conflicts, Studies in Twentieth Century American Diplomacy* (Lawrence, Kan.: University of Kansas Press, 1959), pp. 1-20; Robert Freeman Smith, "American Foreign Relations 1920-1942," in Barton J. Bernstein, ed., *Towards a New Past*, pp. 232-256; Fred L. Israel, *The War Diary of Breckinridge Long . . . 1939-1944* (Lincoln, Neb.: University of Nebraska Press, 1966), pp. 81-82.

subtle and sophisticated measures of Roosevelt, Hull, Welles, Adolph Berle, and Nelson Rockefeller (Roosevelt's Coordinator of Inter-American Affairs) to maintain United States hegemony in Latin America have recently been thoroughly analyzed. The ideological direction of the New Deal policy-makers was summarized by Herbert Feis in 1940: "Violent social revolution anywhere in the world is disadvantageous to us. We must contribute, if the chance exists, to an orderly social program."<sup>13</sup>

The failure of the New Deal as an economic system caused the redefinition of the New Deal as a system of national-security management. By 1940 American unemployment was as high as in 1932; United States economic policy in the 1930s caused longer unemployment and deeper decline in economic activity than suffered by any other industrialized nation. Thus, the cause of American economic difficulty was externalized, and the economy subsidized by the needs defined by the national-security concept. Public opinion in the United States was presented with a popular ideological formulation of national security by Henry Luce in an *American Century* editorial in early 1941. A more precise formulation was presented to the annual convention of the Investment Bankers Association in December, 1940, by Virgil Jordan, President of the National Industrial Conference Board. Jordan declared:

Before we can understand any of the needs of industry for national defense, we must first try to comprehend what this thing we call our "defense program" really means. We have not yet been willing to look the phrase squarely in the face. . . . Our government has committed the American community to participa-

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<sup>13</sup> Robert F. Smith, *The United States and Cuba: Business and Diplomacy, 1917-1960* (New York: Bookman Associates, 1960), pp. 144-164; Lloyd C. Gardner, *Economic Aspects of New Deal Diplomacy* (Madison, Wis.: University of Wisconsin Press, 1964), pp. 53-57; David Green, *The Containment of Latin America* (Chicago: Quadrangle Books, 1971), pp. 3-58.

tion in this war as the economic ally of England, and as her spiritual, if not her political, partner in her struggle with the enemies of the British Empire everywhere in the world, to help prevent, if possible, their destruction of the Empire, and if this should not be possible, to take her place as the heir and residuary legatee or receiver for whatever economic and political assets of the Empire survive her defeat. . . . Whatever the outcome of the war, America has embarked upon a career of imperialism, both in world affairs and in every other aspect of her life, with all the opportunities, responsibilities, and perils which that implies. . . . At best, England will become a junior partner in a new Anglo-Saxon imperialism, in which the economic resources and the military and naval strength of the United States will be the center of gravity. Southward in our hemisphere and westward in the Pacific the path of empire takes its way, and in modern terms of economic power as well as political prestige, the scepter passes to the United States. . . . From the pages of British experience, however, we know some of the things that this white man's burden may mean when we assume it. We know it implies a vast responsibility of assembling, applying, and conserving the financial resources upon which it rests. We know, too, from some of the darker pages of British experience in the past century, that it implies an enormous task of expanding and maintaining a vast organization of man-power, machines and equipment, not merely for national defense, but for effective and continuous exercise of international authority in the maintenance of peace and order. . . .

All this is what lies beneath the phrase national security—some of it deeply hidden, some of it very near the surface and soon to emerge to challenge us.<sup>14</sup>

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<sup>14</sup> Arthur A. Ekirch, Jr., *Ideologies and Utopias, The Impact of the New Deal on American Thought* (Chicago: Quadrangle Books, 1969), pp. 46, 114, 208–213; Robert A. Divine, *The Illusion of Neutrality* (Chicago: Quadrangle Books, 1968), pp. 286–335; James J. Martin, "On the 'Defense' Origins of the New Imperialism," *Rampart Journal*, Vol. IV, 3, pp. 25–27.

The initial working out of this "career of imperialism" during World War II has been admirably detailed in the study by Gabriel Kolko, *The Politics of War*. The International Monetary Fund, the World Bank, foreign aid, and world trade programs were principal instruments for American policy-makers. A major American objective through its economic policy was the "reintegration of the U.S.S.R. into the capitalist world economy on a basis which economists have dubbed as neocolonialism."<sup>15</sup>

At the end of the war in Europe, Secretary of State James Byrnes devoted himself to this objective. As described by Byrnes with regard to the postwar treaties with Germany's eastern European partners:

Perhaps most important of all the treaties will make possible the entry of the ex-enemy states (Hungary, Rumania, Bulgaria) into the United Nations and their participation in the benefits and responsibilities of such specialized agencies as the International Bank, the Monetary Fund, the Food and Agricultural Organization.

Obviously, for the Soviet Union this economic penetration by the United States or U.S.-dominated international agencies meant eventual political control in Central and Eastern Europe.<sup>16</sup>

The role of UNRRA is an example. In 1945 the political power of food in preventing or overthrowing social revolution in 1919 was recalled by American policy-makers. The United States attempted to have Americans appointed the heads of UNRRA in most European countries. When that was resisted, Herbert Hoover advised that food programs be shifted from the neutral UNRRA to United States mili-

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<sup>15</sup> Gabriel Kolko, *The Politics of War, The World and United States Foreign Policy, 1943-1945* (New York: Random House, 1968), pp. 242-340; William L. Neumann, *After Victory* (New York: Harper & Row, 1967), pp. 127-189.

<sup>16</sup> Kolko, *op. cit.*, pp. 549-617; James F. Byrnes, *Speaking Frankly* (New York: Harper & Bros., 1947), pp. 138-155.

tary authorities. War Secretary Henry Stimson said in 1945 that Hoover's "ideas followed very much the line which [John J.] McCloy and I had been fighting for. . . . We could turn the tide of Communism in all these countries. Hoover stamped out Communism in this way in central Europe." What Stimson, McCloy, Hoover, etc., did not recognize was that the premises of European communism in 1945 just as of European socialism in 1919 condemned it to passivity, to cooperation and integration into the program of Allied imperialism.<sup>17</sup>

But Ambassador to Russia Averell Harriman and Navy Secretary James Forrestal were reminding each other that a conflict with the Soviet Union was inevitable. George Kennan, counselor of the embassy in Russia, in 1945 recognized the basic conservatism of Soviet diplomacy, but in May, 1945, raised the specter of European left insurgencies: "Moscow would have no reason to contemplate a further military advance in Europe. . . . the danger for the West is not Russian invasion—it is the Communist parties in the Western countries themselves, plus the unreal hopes and fears the Western people had been taught to entertain." However, it was the communist parties of the West that, under the influence of the Soviet Union, entertained the "unreal hopes and fears" and acted as conservative forces disarming the armed resistance forces in France, Italy, and Greece, and creating the conditions for co-optation.<sup>18</sup>

Forced to choose between obedience and revolutionary success, the popular, national communist parties in Yugoslavia and China disobeyed Soviet policy and thereby gained success. But in Greece, the National Liberation Front during 1945 under Soviet prompting

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<sup>17</sup> Kolko, *op. cit.*, pp. 484–502.

<sup>18</sup> *Ibid.*, pp. 163–164, 418; Barnet, *Intervention and Revolution*, pp. 89–91; George F. Kennan, *Memoirs* (Boston: Atlantic Monthly Press, 1967), pp. 227–284.

after virtually possessing most of Greece and besting the British forces in combat, willingly surrendered its arms and staked its future on the reliability of British promises and their small and anxious local allies. This abdication was possible only because the Communists in the [Front] dictated it over a movement they could barely control.

Greece was the most tragic example of the conservative role adopted by the postwar European communist parties:

The simple matter is that whenever leaders of the Old Order incorporated the Left into a modernized, reformed capitalism, the Left willingly assumed the role assigned to it. Where the occupation forces repressed it and brought the naked power of reaction to bear, the Left reluctantly fought, and lost, and this was the true lesson of Greece.

However, as in Vietnam where the Vietminh were able to defeat the French who were then replaced by the Americans, the Greek guerrillas caused the British in early 1947 to announce that they were immediately disengaging from the Greek conflict and that the United States should take its place there.<sup>19</sup>

At that time the United States was in the process of developing its major foreign aid program, which eventually became the Marshall Plan. Dean Acheson, Undersecretary of State, said that the United States was prosperous because of its large-scale export trade. However, it was exporting twice as much as it was importing, which meant that foreign countries, especially in Europe, would not have the dollars to purchase United States exports. The results could lead to crises in the European economies with serious political consequences, and a recession in America.

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<sup>19</sup> Kolko, *op. cit.*, pp. 172-193, 428-456; William Hardy McNeill, *America, Britain, & Russia, Their Co-operation and Conflict, 1941-1946* (New York: Johnson Reprints, 1970), pp. 735-737.

But the withdrawal of the British from Greece would have meant a guerrilla victory before the operation of the Marshall Plan could take effect. As William Clayton, Undersecretary of State for Economic Affairs, stated in testimony to the Senate Foreign Relations Committee: "If these countries [Greece and Turkey] and the other countries should adopt closed economies, you can imagine the effect that it would have on our foreign trade. . . . it is important that we do everything we can to retain those export markets."<sup>20</sup>

Already during 1946 America's naval presence was introduced in the eastern Mediterranean with immediate reference to the guerrilla struggle in Greece as well as the long-run United States interests in the Near East. Yet, this action was part of a more general policy toward the Soviet Union centering upon increased militarization of relations by the United States. Secretary of State Byrnes's Stuttgart speech of September 6, 1946, delivered before General Lucius Clay's American Occupation forces, indicated United States intentions to use Germany as a principal military position on the borders of the Soviet Union.<sup>21</sup>

In the model created in the Greek crisis no consideration was given to the possibility that the guerrillas had personally determined to engage in a struggle against the government's oppression rather than submit. No analysis was made of the relationships between the Greek guerrillas and the various communist states—Yugoslavia, Bulgaria, Albania—or between those states and the Soviet Union. The guerrillas were agents of the Soviet Union in the minds of

<sup>20</sup> Joseph M. Jones, *The Fifteen Weeks* (New York: Viking, 1964), pp. 5-7, 120-121, 189; G. William Domhoff, "Who Made American Foreign Policy, 1945-1963?" in David Horowitz, ed., *Corporations and the Cold War* (New York: Monthly Review Press, 1969), pp. 25-64; Arthur A. Ekirch, Jr., *The Civilian and the Military* (New York: Oxford, 1956), pp. 273-275.

<sup>21</sup> Byrnes, *Speaking Frankly*, pp. 298-305; Barnet, *Intervention and Revolution*, pp. 97-104.



the national-security bureaucracy. In the Greek model, the Greek regime's request for United States aid was drafted in Washington and sent to Athens for submission through Greek diplomatic officials. The United States assistant secretary of state explained that the request

had been drafted with a view to the mentality of Congress. . . . It would also serve to protect the U.S. Government against internal and external charges that it was taking the initiative of intervening in a foreign state or that it had been persuaded by the British to take over a bad legacy from them.<sup>22</sup>

The President's speech to Congress proclaiming the Truman Doctrine was weighed for every effect on Congress and public opinion by presidential adviser Clark Clifford and Undersecretary of State Dean Acheson. Nevertheless, there was opposition to the Truman Doctrine. As noted by Joseph Jones in his celebration of the preparation of the Truman Doctrine entitled *The Fifteen Weeks*:

Most of the outright opposition came from the extreme Left and the extreme Right of the political spectrum: from a certain school of "liberals" who had long been strongly critical of the administration's stiffening policy toward the Soviet Union, and from the "isolationists" who had been consistent opponents of all foreign policy measures that projected the United States actively in World affairs. . . . The opposition of the Left emphasized that American aid to the existing Greek and Turkish governments would not promote freedom but would protect anti-democratic and reactionary regimes; and that the proposed action bypassed the United Nations and endangered its future. The opposition of the Right emphasized that the President's policy would probably, if not inevitably,

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<sup>22</sup> Barnet, *op. cit.*, pp. 107-128; Todd Gitlin, "Counter-Insurgency: Myth and Reality in Greece," in David Horowitz, ed., *Containment and Revolution*, pp. 140-180.

lead to war; and that the American economy could not stand the strains of trying to stop Communism with dollars.<sup>23</sup>

Former Vice-President Henry A. Wallace originally supported economic aid for reconstruction in Greece and the creation of an American economic mission in Greece to administer it:

Greece cannot do this alone. . . . I don't believe in American imperialism, but as a stop-gap I believe that it is enlightened selfishness for the United States to step in now with a well-planned, efficiently administered loan. . . . But our obligation goes much further than the mere giving of money. There is the further responsibility of seeing to it that the money we give is spent on the things for which we gave it.

However, Wallace reacted strongly against the Truman Doctrine, which he called "a military lend-lease program," that would waste \$400 million on military purchases rather than rebuilding the Greek economy as a market for United States capital and goods.<sup>24</sup>

Although the Truman Doctrine was supported by the Republican majority as well as the entire Democratic membership as part of the emerging bipartisan foreign policy, almost one hundred isolationist Republicans in the House of Representatives attacked the Greek government as a dictatorship kept in power by foreign military power and by corrupt and fraudulent elections. Their floor leader

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<sup>23</sup> Jones, *op. cit.*, p. 177; L. K. Adler and T. G. Paterson, "Red Fascism: The Merger of Nazi Germany and Soviet Russia in the American Image of Totalitarianism, 1930s-1950s," *American Historical Review*, LXXV (1970), pp. 1046-1064.

<sup>24</sup> Henry A. Wallace, "The Way to Help Greece," *New Republic*, CXVI (March 17, 1947), pp. 12-13; Wallace, "The Fight for Peace Begins," *New Republic*, CXVI (March 24, 1947), pp. 12-13; Lloyd C. Gardner, "The New Deal, New Frontiers, and the Cold War," in David Horowitz, ed., *Corporations and the Cold War*, pp. 126-135.

was Representative George Bender of Ohio. On March 28, 1947, he declared:

I believe that the White House program is a reaffirmation of the nineteenth-century belief in power politics. It is a refinement of the policy first adopted after the Treaty of Versailles in 1919 designed to encircle Russia and establish a "Cordon Sanitaire" around the Soviet Union. It is a program which points to a new policy of interventionism in Europe as a corollary to our Monroe Doctrine in South America. Let there be no mistake about the far-reaching implications of this plan. Once we have taken the historic step of sending financial aid, military experts and loans to Greece and Turkey, we shall be irrevocably committed to a course of action from which it will be impossible to withdraw. More and larger demands will follow. Greater needs will arise throughout the many areas of friction in the world.<sup>25</sup>

Bender was among the few congressional defenders of Henry Wallace when the latter was widely attacked for his proposals, made in England and France, that Europe oppose the Truman Doctrine's division of the world into two camps and instead act as a balance between them. Wallace's speeches in Europe led to a bipartisan demand for the revocation of his passport; and Bender lashed out at the open season on Wallace. He replied to Churchill's attack on Wallace for speaking abroad by noting that if Churchill could seek to inflame the Cold War by speeches in America (Fulton, Mo., address of March 5, 1946), Wallace could seek to prevent that war by speeches in Europe. On June 6, 1947, Bender presented an overall criticism of the bipartisan foreign policy in a speech against Representative Karl Mundt's (R., S.D.) attempt to give a cover of legality to the Voice of America program that the State Department had been operating. Bender said:

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<sup>25</sup> *Congressional Record*, 80th Cong., 1st sess., pp. 2831-2832.

The Voice of America broadcasts are just one piece of the Truman Doctrine.

The pieces are beginning to fall into place, and the pattern is becoming clear. It is not a pretty pattern; it is not a pattern which the people of the United States can look on with confidence or with a sense of hope for the future. . . . But we have learned to look behind the titles or labels of measures prepared by the Truman administration.

The Greek-Turkey-aid bill was presented to this Congress as a humanitarian measure, designed to relieve hunger and suffering. The Truman administration attempted to conceal and disguise its true character, which was admitted only after the measure was subjected to searching examination on the floor of the House. Then it was admitted that all of the so-called aid to Turkey was to be military aid, and most of the aid to Greece was to be military aid. The humanitarian purpose turned out to be hypocrisy. No, we must look behind the high-sounding title in the present bill about the interchange of knowledge and seek out the true character of this measure. Its true character is not difficult to discover. The Voice of America program is nothing more or less than the propaganda arm of the Truman Doctrine. It is just one more piece in the pattern of the Truman adventure in international relations.

What are some of the other pieces in the Truman program which have become more apparent in the past few days? On May 26, Mr. Truman urged the Congress to authorize a program of military collaboration with all the petty and not so petty dictators of South America. Mr. Truman submitted a draft bill which would authorize the United States to take over the arming of South America on a scale far beyond that involved in the \$400,000,000 hand-out to Greece and Turkey.

Mr. Truman continued his campaign for universal peacetime training in the United States. . . .

But military control at home is a part of the emerg-

ing Truman program. The Truman administration is using all its propaganda resources in an attempt to soften up the American people to accept this idea.

Yes; the Truman administration is busy in its attempt to sell the idea of military control to the people of America. And hand in hand with the propaganda campaign go secret meetings for industrial mobilization.

This is the kind of thing which is taking place behind barred doors in the Pentagon Building, about which the people of the United States learn only by accident. This is a part of the emerging Truman program.

It is against this background that the Voice of America program must be considered. This vast foreign propaganda machine prepared by the administration is a part of this program. It is a part just as Mr. Truman's friendship with the dictator Peron of South America is a part. It is a part just as Mr. Truman's eagerness for universal military training in the United States is a part. It is a part just as Mr. Truman's proposal for arming every South American country to the teeth is a part. It is a part of the whole Truman Doctrine of drawing off the resources of the United States in support of every reactionary government in the world.

I am opposed to the Voice of America just as I am opposed to every part of the dangerous and irresponsible Truman doctrine.<sup>26</sup>

Representative Bender's speech was made the day following Secretary of State George Marshall's Harvard speech of June 5 announcing the foreign economic-aid program that became known as the Marshall Plan. The Truman Doctrine was intimately related to the long-range planning for the foreign economic-aid program. The close relationship between military activity, as in Greece, and

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<sup>26</sup> *Congressional Record*, 80th Cong., 1st sess., pp. 3350-3354, 6562-6563.

economic problems for the Truman Administration is indicated by a policy summary by Navy Secretary James Forrestal:

As long as we can outproduce the world, can control the sea and can strike inland with the atomic bomb, we assume certain risks otherwise unacceptable in an effort to restore world trade, to restore the balance of power—military power—and to eliminate some of the conditions which breed war.<sup>27</sup>

Forrestal's views reflected the analyses prepared for him by his principal theoretician, George Kennan.

Kennan's reports for Forrestal became the basis for Kennan's famous "X" article on containment of communism that appeared in 1947 in *Foreign Affairs*. These reports from his post at the National War College, where he had been assigned by Forrestal, provided the ideological content for the aggressive policy of containment that was represented by the Truman Doctrine. This was supposed to prevent the success of left movements in Europe. Describing the aggressive attitude of the Truman Doctrine, Kennan has indicated in his *Memoirs* how lack of precision in the "X" article contributed to the universalization of the concept of containment. Kennan's intention was to limit the geographical relevancy of the concept of containment to Europe. Kennan's regret has been that the policy of containment was extended from Europe to the whole world. The strong criticisms in his "X" article (which was written from December, 1946 to January, 1947) that gave the containment concept its wide interpretation were aimed at the opposition to the Truman foreign policy, which was evidenced both by the election of the Republican-controlled Eightieth Congress and by the resignation of Henry Wallace as Secretary of Commerce. Kennan in 1947 be-

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<sup>27</sup> Jones, *op. cit.*, pp. 31-35, 118-119; Lloyd C. Gardner, *Architects of Illusion* (Chicago: Quadrangle Books, 1970), pp. 270-290.

came the aide of Marshall and Acheson in the State Department, head of the Policy Planning Staff, and architect of the Marshall Plan.<sup>28</sup>

The concept of a large-scale multinational program of American foreign aid for economic recovery had become central to State Department planning. In the spring of 1947 the State Department believed that the American economy would be undermined by an impending European economic collapse. This situation would result in political changes that were unacceptable to American planners. Preparations for a speech by Acheson outlining the future Marshall Plan were begun in early April. Acheson presented it as a major address to the Delta Council in Cleveland, Mississippi, on May 8. After describing the importance of foreign exports for the United States' economic stability and the inability of foreign nations to cover the costs of their present purchases from the United States, Acheson continued:

The extreme need of foreign countries for American products is likely, therefore, to continue undiminished in 1948, while the capacity of foreign countries to pay in commodities will be only slightly increased. . . . What do these facts of international life mean for the United States and for United States foreign policy? . . . the United States is going to have to undertake further emergency financing of foreign purchases if foreign countries are to continue to buy in 1948 and 1949 the commodities which they need to sustain life and at the same time rebuild their economies. . . .

This is merely common sense and sound practice. It is in keeping with the policy announced by President Truman in his special message to Congress on March 12 on aid to Greece and Turkey. . . . Not only do human beings and nations exist in narrow economic

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<sup>28</sup> Kennan, *op. cit.*, pp. 332-334; Jones, *op. cit.*, pp. 132-133, 154-155; Gardner, *op. cit.*, pp. 281-300.

margins, but also human dignity, human freedom, and democratic institutions. It is one of the principal aims of our foreign policy today to use our economic and financial resources to widen these margins. It is necessary if we are to preserve our own freedoms and our own democratic institutions. It is necessary for our national security.<sup>29</sup>

The national-security bureaucracy of the United States developed the view that the threat of social revolution abroad was a problem of modern management techniques—the management of economic aid to countries and economic incentives to individuals to maintain American dominance. The national security of the United States has been defined to demand that every country develop, economically and politically, under its aegis. The stable existence of the regimes in each of the countries is the central interest for the United States. If that stability cannot be guaranteed by the management of economic resources, such as trade and foreign aid, then it must be guaranteed by the management of violence. Thus, Acheson was prophetic in centering attention on the Truman Doctrine as a defining element in America's future decision-making. The American military role in the Greek civil war became the model for American interventions in Korea, Iran, Guatemala, Indochina, the Middle East, Cuba, the Dominican Republic, and ultimately in Vietnam, Laos, and Cambodia. As former State Department official Richard Barnet has noted:

Almost twenty years later the President of the United States was defending his intervention in Vietnam by pointing to his predecessor's success in Greece. The American experience in Greece not only set the pattern for subsequent interventions in internal wars

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<sup>29</sup> Jones, *op. cit.*, pp. 252–253, 278–281; Dean Acheson, *Present at the Creation* (New York: Norton, 1969), pp. 227–235; Kennan, *op. cit.*, pp. 342–343; Gardner, *op. cit.*, pp. 215–231.



but also suggested the criteria for assessing the success or failure of counterinsurgency operations. . . .

One of the most important consequences of the American involvement in Greece in the 1940s was the development of new bureaucracies specializing in military assistance, police administration, and economic aid, committed to an analysis of revolution and a set of responses for dealing with it that would be applied to many different conflicts in the next twenty years.<sup>30</sup>

Major critical comment concerning the international difficulties of the United States by the late 1960s stressed the assumption by the United States government of the role of world policeman. This role was sketched already by President Roosevelt during World War II as a special position for the Big Four, which was to be formalized by their rights as permanent members of the United Nations' Security Council. When the potential success of this situation did not materialize, unilateral American military power came to represent the final arbiter in world politics. However, the use of United States military power as an ultimate policy was the capstone of a much deeper and more sophisticated program of violence-management: the organization of the existing police work in many countries of the world. In the immediate postwar period United States missions to Greece reorganized the police forces at the same time as a United States mission was reorganizing the Iranian police (the head of this mission to Iran, a former superintendent of New Jersey State Police, in 1953 aided Middle East CIA chief, Kermit Roosevelt, to overthrow Iranian Premier Mossadegh). The major United States intervention in Vietnam after the 1954 Geneva Conference involved the organization of the internal police activities that drove so many Vietnamese into opposition and the formation of the National Liberation Front of South Viet-

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<sup>30</sup> Barnet, *op. cit.*, pp. 97-121.

nam. The CIA through the Michigan State University Advisory Group organized and developed Diem's police forces. When the police function contributed to the development of the opposition, as in Vietnam, the substitution of United States military forces as policemen was the natural extension of the process of the management of violence.<sup>31</sup>

The Korean War was the police action that clearly raised major issues concerning the policies of the national-security bureaucracy. The natural defender and spokesman of those policies was McGeorge Bundy. Bundy's father had been Assistant Secretary of State and War Department adviser under Henry Stimson, and Bundy had coauthored Stimson's memoirs. Then, he edited the papers of Secretary of State Dean Acheson (the father-in-law of his brother, William Bundy) while the Korean War was in progress. Bundy defended the unlimited power of the executive to undertake political and military action around the globe. He criticized those who desired to limit foreign crises by eliminating areas of friction through negotiations, or who opposed United States military interventions. These approaches, according to Bundy, failed to assert America's global leadership against communism and substituted a defective attitude of doubt, mistrust, and fear regarding America's national purpose in the world.<sup>32</sup>

In two articles in the *Reporter*, in 1951, "‘Appeasement,’ ‘Provocation,’ and Policy" and "The Private World of Robert Taft," McGeorge Bundy sketched his defense of the national-security bureaucracy. The ideological premise of that bureaucracy was stated by Bundy: "The major fact about our world is that it is in the throes of a great struggle

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<sup>31</sup> *Ibid.*, pp. 181-236.

<sup>32</sup> McGeorge Bundy, *The Pattern of Responsibility* (Boston: Houghton Mifflin, 1952), pp. 83-89; Bundy, "‘Appeasement,’ ‘Provocation,’ and Policy," *The Reporter* (January 9, 1951), pp. 14-16.

for power between the Kremlin and the field." For Bundy the central role of the national-security manager or policy-maker is not the negotiation of peace traditional to statesmanship; instead, the central concern is power. The national-security manager controls diplomatic and military power and applies them in the permanent struggle against communism in limited wars and the proto-wars of internal police activity in underdeveloped countries. For Bundy there is no such thing as too much force or too much domination by military factors; but his insistence upon permanent American intervention into the internal affairs of other countries naturally made him fear the American military's tendency to use air power to minimize the loss of life among American forces, a loss acceptable to the national-security manager if not to the American people.<sup>33</sup>

Bundy's concept of the national-security manager manipulating diplomatic and military elements in a long-term series of limited wars and limited proto-war police activities in the underdeveloped countries is basically an elitist approach that excludes a positive role for public opinion, and, *a fortiori*, for public debate, including congressional debate. The public is not committed to the rigid national purpose whose ideology dominates the national-security bureaucracy. Thus, a positive role for public opinion, and for public debate, would introduce irreconcilable contradictions into political management. Instead, by excluding a positive role for public opinion, the public will simply react to existing crises that are presented to them by the national-security managers.

Bundy's major criticism was leveled at those whom he labeled "appeasers"—mainly isolationists such as Senator Robert Taft (R., Ohio) who was dubbed by Bundy the "Reluctant Dragon" who would not wage the permanent crusade against communism. Taft was viewed as the most

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<sup>33</sup> Bundy, "The Private World of Robert Taft," *The Reporter* (December 11, 1951), pp. 37-38.

perceptive and thoroughgoing critic of the policies of the Truman Administration, which became the foundations for American foreign policy for the quarter century that followed. Taft attacked Truman's dispatch of American troops outside of the United States without the direct approval of Congress. Taft and other critics "condemned U.S. participation in Korea as unconstitutional and provided that the only funds available for overseas troops shipment should be funds necessary to facilitate the extrication of U.S. forces now in Korea." It was in opposition to the Truman Administration's desire to prevent open debate on foreign policy that Taft launched the Great Debate of 1951 with Secretary of State Acheson. The Great Debate surrounded the introduction of a resolution forbidding the President to send troops abroad without congressional approval. Taft noted the tendency of national-security managers to insinuate the United States into other countries' affairs, followed by a conflict in which the President would demand unquestioning support in Congress:

After that, if anyone dared to suggest criticism or even a thorough debate, he was at once branded as an isolationist and a saboteur of unity and the bipartisan foreign policy.<sup>34</sup>

Taft's final foreign policy statement before his death directed the same criticism he had leveled against Acheson toward Secretary of State John Foster Dulles. Taft and Dulles had been opponents when Dulles was Acheson's special foreign policy adviser. Taft's speech of May 26, 1953, was particularly concerned with Dulles' Southeast Asia policy because the United States was increasing to seventy percent the amount it contributed to the support of France's puppet regime against the guerrillas led by Ho Chi

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<sup>34</sup> *New Republic* (January 15, 1951), p. 7; *Congressional Record*, 82nd Cong., 1st sess., p. 55.

Minh. Dulles' policy, Taft feared, along with the eventual defeat of the French, would lead to their replacement by the United States, including the potential intervention of American military forces against the guerrillas. Taft declared:

I have never felt that we should send American soldiers to the Continent of Asia, which, of course, included China proper and Indo-China, simply because we are so outnumbered in fighting a land war on the Continent of Asia that it would bring about complete exhaustion even if we were able to win. . . . So today, as since 1947 in Europe and 1950 in Asia, we are really trying to arm the world against Communist Russia, or at least furnish all the assistance which can be of use to them in opposing Communism. Is this policy of uniting the free world against Communism in time of peace going to be a practical long-term policy? I have always been a skeptic on the subject of the military practicability of NATO. . . . I have always felt that we should not attempt to fight Russia on the ground on the Continent of Europe any more than we should attempt to fight China on the Continent of Asia.<sup>35</sup>

Although the experience of the United States' intervention in Vietnam confirms Senator Taft's analyses of executive dominance of foreign policy and the role of the national-security bureaucracy, McGeorge Bundy did not reevaluate his criticism of Taft and his support of Acheson's national-security management. Bundy's years as national-security manager during the Kennedy-Johnson Administrations confirmed him in every concept he expressed when defending Acheson's policy-making against Taft. In *Foreign Affairs* (January, 1967) Bundy indicated that his major consideration was that the Vietnam experience must increase the confidence of the American people in the

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<sup>35</sup> *Vital Speeches*, 19 (June 15, 1953), pp. 530-531.

ability of the national-security management to maintain United States world dominance (Bundy noted that four-fifths of all foreign investments are controlled by the United States). Any negotiations concerning Vietnam must be conducted, according to Bundy, so that there is no appearance of defeat for the United States, for then the American public would radically question the whole structure and ideology of the United States' world dominance. He advocated manipulation of Vietnam negotiations to retain public confidence in the whole national-security process. Thus, an original part of the purpose of the Vietnam intervention was quickly achieved: client governments of the United States were assured that the United States government would gamble on continuing them in power against popular revolutions even at the cost of American lives. Bundy viewed, as a vital consequence of the Vietnam War, the need for continued commitment by the American public to "extensive policies" and "extensive actions" which require the national-security bureaucracy to apply military and diplomatic means, bombing and negotiations, and every other option, alternative, and instrument in the national-security arsenal. Bundy considered the most conspicuous expansion during the Kennedy-Johnson Administrations to be the management of violence—and that this has "been right, and that it is right to persevere."<sup>36</sup>

Thus, the national-security management views its role ultimately as a police role: neither a political role, which would seek the support of the people involved, nor a military role, which would not pretend to be aimed at the benefit of the people subjected to it, but the police role of application of violence against the will of the people but for their benefit. Early in the Kennedy Administration

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<sup>36</sup> McGeorge Bundy, "The End of Either/Or," *Foreign Affairs*, Vol. 45, 2 (January, 1967), pp. 189-201; Bundy, "To Cap the Volcano," *Foreign Affairs*, Vol. 48, 1 (October, 1969), pp. 10-18.

United States strategists announced the "new theory" that United States massive fire power could win guerrilla warfare without gaining support from the people where the warfare existed. Walt W. Rostow was the principal spokesman for this "new theory," and to cope with national-security management in the 1970s Rostow now suggests that United States troops will continue to be used in the underdeveloped world for the management of crises. Rostow said:

we shall see in other parts of the world as well the positioning of forward equipment, with more of our forces maintained in the center but capable of quick movement. That will have to evolve with the big aircraft. . . . you must have overseas bases which are secure which contain some heavy equipment. We are now talking about things that are for the seventies.

These plans for future management of violence are programmed; the crucial ingredient remains the confidence of the American people in the ideology of the national-security process.<sup>37</sup>

Richard Nixon recognized this when he assumed the presidency in 1969; central to his Administration has been the struggle for the confidence of the public through avoidance of public debate, including congressional debate, while pursuing national-security management, especially in Vietnam, Cambodia, and Laos. Future management of violence depends upon the continued support for the military base of national security. In his commencement address at the Air Force Academy on June 4, 1969, Nixon said:

On the home front, you are under attack from those who question the need for a strong national defense and indeed see a danger in the power of the defenders. . . .

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<sup>37</sup> *The New York Times*, January 5, 1969, p. 14.

They believe that we can be conciliatory and accommodating only if we do not have the strength to be otherwise. They believe that America will be able to deal with the possibility of peace only when we are unable to cope with the threat of war.

Those who think that way have grown weary of the weight of free world leadership that fell upon us in the wake of World War II.

They argue that the United States is as much responsible for the tensions in the world as the adversaries we face. They assert that the United States is blocking the road to peace by maintaining its military strength at home and its defenses abroad. And if we would only reduce our forces, they contend, tensions would disappear, and the chances for peace would brighten.

America's powerful military presence on the world scene, they believe, makes peace abroad improbable and peace at home impossible.

Now we should never underestimate the appeal of this isolationist school of thought. Their slogans are simplistic and powerful: Charity begins at home. Let's first solve our problems at home and then we can deal with the problems of the world.

This simple formula touches a responsive chord with many an overburdened taxpayer. And it would be easy—easy for a President of the United States to buy some popularity by going along with the new isolationists. . . .

I hold a totally different view of the world, and I come to a different conclusion about the direction America must take. . . .

I say that America has a vital national interest in world stability, and no other nation can uphold that interest for us.<sup>38</sup>

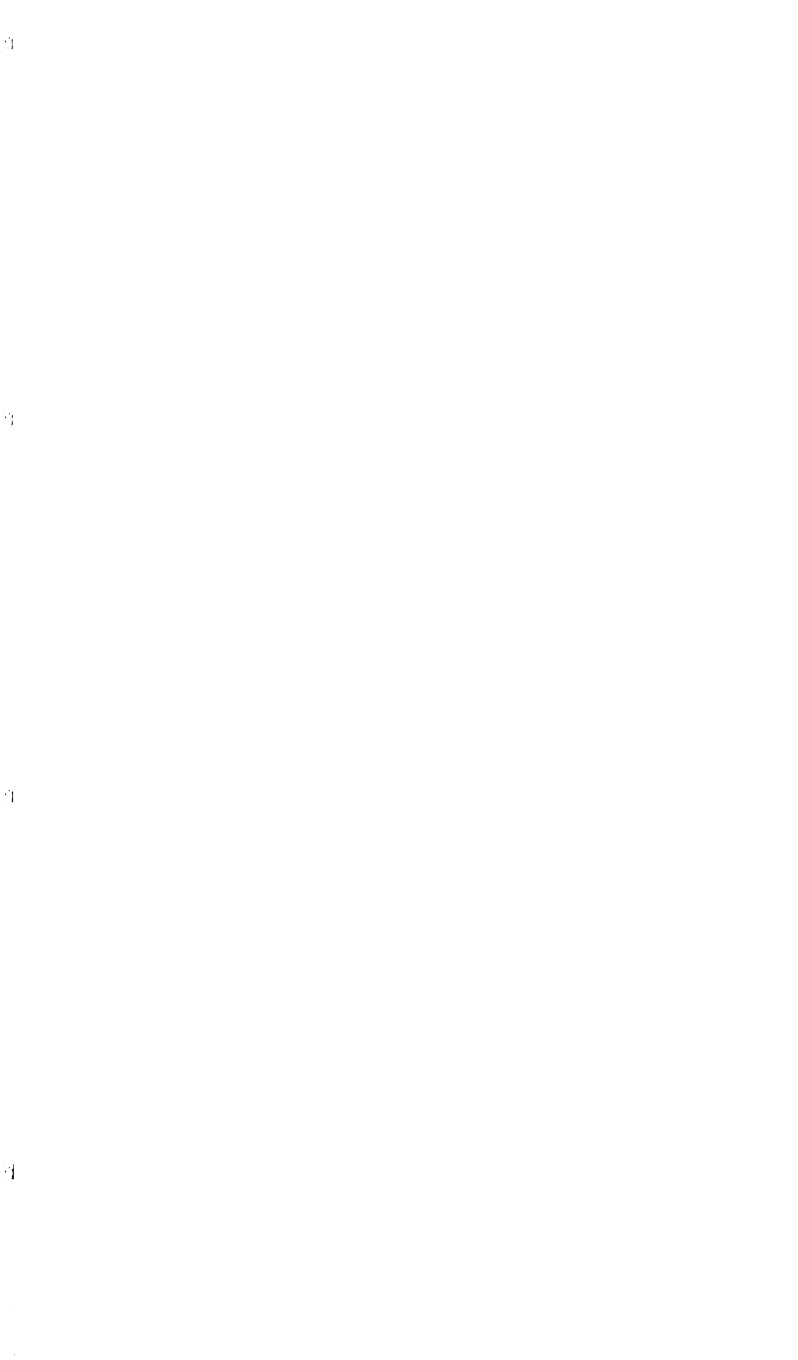
National-security management in the 1970s is rooted in the same basic factors of technology, public opinion, and popular revolution. The management of violence through

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<sup>38</sup> *The New York Times*, June 5, 1969, p. 30.



the threat of American military intervention requires American public opinion's acceptance of a powerful military establishment and of its use. Both have received the most serious challenges since the emergence of national-security management. Public opinion, including congressional debate, has acquired a chance to eliminate during the 1970s the institutions of national-security management, and to restore constitutional decision-making.



# Suggested Readings

The following is a brief list of books in which the reader will find more material on the interpretation of twentieth-century American history contained in this book.

Barton J. Bernstein, ed., *Towards a New Past: Dissenting Essays in American History*. New York: Pantheon Books, 1968.

John Braeman, Robert H. Bremner, and Everett Walters, eds., *Change and Continuity in Twentieth-Century America*. New York: Harper & Row, 1967.

G. William Domhoff, *The Higher Circles: The Governing Class in America*. New York: Random House, 1970.

Arthur A. Ekirch, *The Decline of American Liberalism*. New York: Atheneum, 1967.

John T. Flynn, *As We Go Marching*. Garden City, N.Y.: Doubleday, Doran, 1944.

Lloyd C. Gardner, *Architects of Illusion: Men and Ideas in American Foreign Policy, 1941-1949*. Chicago: Quadrangle Books, 1970.

- . *Economic Aspects of New Deal Diplomacy*. Madison, Wis.: University of Wisconsin Press, 1964.
- James B. Gilbert, *Designing the Industrial State: The Intellectual Pursuit of Collectivism in America, 1880-1940* (Chicago: Quadrangle Books, 1972).
- Eugene O. Golob, *The Isms: A History and Evaluation*. New York: Harper & Bros., 1954.
- Gabriel Kolko, *Railroads and Regulation, 1877-1916*. Princeton: Princeton University Press, 1965.
- . *The Triumph of Conservatism: A Reinterpretation of American History, 1900-1916*. New York: The Free Press of Glencoe, 1963.
- Ronald Radosh, *American Labor and United States Foreign Policy*. New York: Random House, 1969.
- Murray N. Rothbard, *America's Great Depression*. Princeton, N.J.: D. Van Nostrand, 1963.
- Melvin I. Urofsky, *Big Steel and the Wilson Administration: A Study in Business-Government Relations*. Columbus, Ohio: Ohio State University Press, 1969.
- James Weinstein, *The Corporate Ideal in the Liberal State: 1900-1918*. Boston: Beacon Press, 1968.
- and David Eakins, eds., *For a New America: Essays in History and Politics from Studies on the Left, 1959-1967*. New York: Random House, 1970.
- William Appleman Williams, *The Contours of American History*. Cleveland, Ohio: World Publishing Company, 1961.
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- Robert H. Zieger, *Republicans and Labor, 1919-1929*. Lexington, Ky.: University of Kentucky Press, 1969.

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"Henry A. Wallace and the Open Door," in Thomas G. Paterson, ed., *Cold War Critics* (Chicago: Quadrangle, 1971). He is at work on a study of American isolationism in the twentieth century. He is now a Ph.D. candidate at Fordham University.

