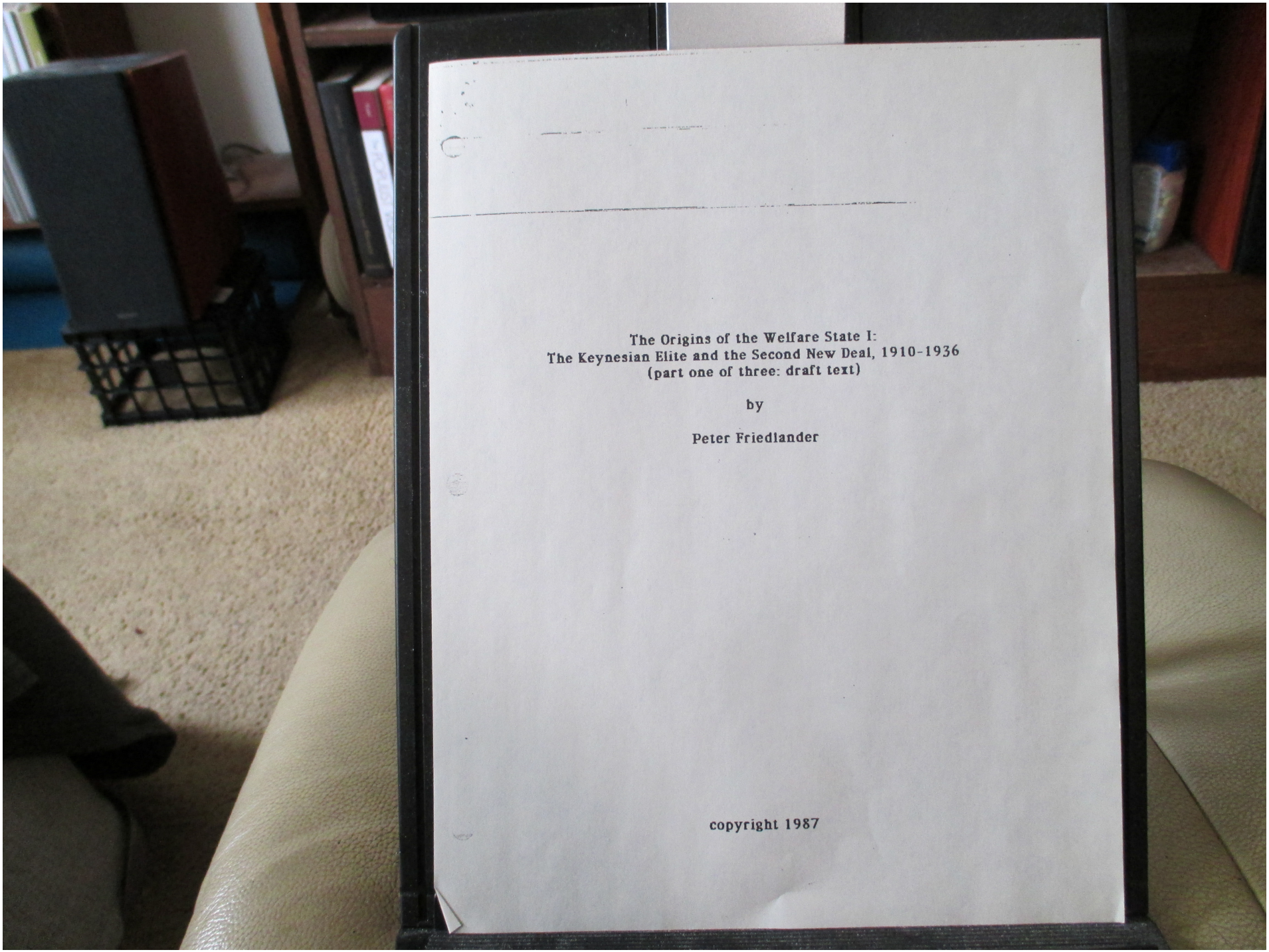

The Origins of the Welfare State I:
The Keynesian Elite and the Second New Deal, 1910-1936
(part one of three: draft text)

by

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The Second New Deal denotes that radical break in policy that occured in early 1935 when President Roosevelt threw his support behind a cluster of epochal reform measures: the Emergency Relief Appropriation Act,[1] the National Labor Relations Act; the Social Security Act; the Banking Act of 1935; the Public Utilities Holding Company Act; and the Revenue Act of 1935. The Second New Deal also included social democratic, populist, and Progressive legitimation rhetoric; Keynesian economic strategies; and an electoral coalition built out of labor, farmers, liberals, minorities and immigrants--the usual but incomplete and misleading demographic profile--and white collar and professional personnel, especially in human services (teachers, social workers, dentists), semiotics (journalists, lawyers, writers, musicians, actors), and mass distribution.[2] The Second New Deal, in other words, has usually been approached in terms of ideology, electoral politics, and Congressional policy. Moreover, there is remarkably wide agreement among conflicting theoretical perspectives on two major points: that the direct involvement of *sectors of capital* (as distinct from "dissident" business men[3]) in the Second New Deal was nil; and that the administrative elite of the Second New Deal state apparatus was "a school of analytically superficial trustbusters [that] had no social base."[4]

For scholars inclined to examine the relationship between business, policy-making, and the state, it has been the National Recovery Administration (NRA) of the First New Deal, not the Keynesian structures of the Second, that has attracted the most attention. The NRA has been generally described as corporatist--an institutional arrangement of government-sanctioned trade association control of production, prices and wages, dominated, to a great extent, by the chief executives of the large firms themselves. In examining this corporatist effort to achieve "rationalization," however, historians have made too much of standardization, of the cognitive qualities of "far-sightedness," of the use of the code-word "planning" as a euphemism for "cartelization." Even the concept of cartelization fails to grasp the deep logic of the "big business" corporatism of the 1930s. Above all, the corporatists sought stability and the preservation of existing property values, and the market they were concerned with was (more than many corporatist analysts like to admit) the market for securities.[5] The corporatist approach works in the case of the First New Deal because the First New Deal as strategy and structure was indeed corporatist.

Attempts to extend this corporatist perspective to the Roosevelt Administration as a whole (and thus by implication to the Second New Deal) are less successful. First, the Keynesians differed radically in their political economic perspective. They had an inherently developmental strategic concept, and were oriented toward the dynamic of market expansion as a fundamentally *intensive* process of socio-economic differentiation. The corporatist promise "of limiting production to meet present demand" was viewed with alarm by the Keynesians, who argued on the contrary that "the biggest part of our problem is in the field of distribution." It was necessary not to restrain production, argued John H. Fahey, but to increase "the buying power of the great consuming market of the country."[6]

Second, the attempt to apply the corporatist pardigm to the New Deal as a whole leads to the argument that the regulatory, reform, and redistribution measures initiated by the Keyensians, the dramatic shift toward adminstrative law, the formation of new institutions of mass politics integrated into the state, the introduction of Keynesian macro-economic policies, and the linkage of the destiny of the state with the expansion of consumption, were removable singularities within an evolutionary continuum extending from the 1920s to the 1940s.[7]

And finally, the Keynesians themselves are given the status of non-persons, their presence recognized, if at all, as a brief and inexplicable intrusion by a band of "statist planners, anti-trust decentralizers, laborite activists, and anti-business Keynesians."[8] An interruption in the patterns of continuity that characterize the period from the First World War to the 1940s and beyond, the Keynesians have been comprehended as small but indigestible clumps of empirical stuff that defy reason.

In this paper I apply network theory[9] to the analysis of the genesis and structure of the Second New Deal state apparatus in the following ways. First, in a brief overview, I look at the *input-output matrices of different sectors of accumulation,* and show that the chief executive officers of leading corporations intersected with the polity in such a way that the "state" under FDR could be better characterized as a *segmented state* within which the *Keynesian elite* (rooted in mass consumption) finally achieved parity with the two older major elite formations--the *securities bloc* (rooted in infrastructure capital) and *commodities in international trade* (cotton, tobacco, copper, wheat, etc.). Second, I examine *the state apparatus itself,* and find that the administrative core of the Second New Deal was a well-defined personnel matrix comprised of a cadre of lawyers linked to Felix Frankfurter (**FF**) and Louis D. Brandeis, and a network of technocrats drawn from or closely associated with the Taylor Society (**TS**).

Within this analytical context I reconstruct the history of FF ~~x TS~~. And third, by applying network theory to the Taylor Society as inter-organizational matrix, I find that the strategic discourse as well as the internal structure and composition of the Keynesian elite in the Second New Deal was determined by the circuit of realization of mass capitalism.

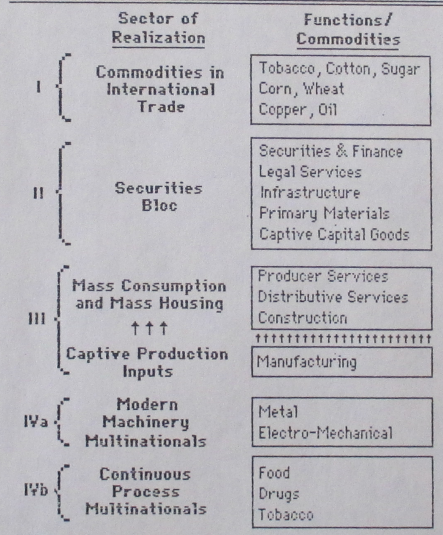
i. sectors of capital & segments of the state

Figure 1, classification of firms for sectoral analysis, is a synthesis, for the purposes of political analysis, of a number of studies of the structure of the U. S. economy. Wassily Leontieff's study of the input-output structure of the U.S. economy, and Charles A. Bliss's work on the structure of manufacturing production provide essential theoretical and statistical tools required for the development of a concept of sector of realization.[10] Leontieff's analysis focuses on transactions between sectors. Bliss's concept of "character of ultimate use" is especially important, for it refers not to a particular industry, but rather to the actual structure of demand. The latter is divided into four major segments: consumption goods, construction materials, capital equipment, and producers' supplies. These are further broken down into 18 subdivisions.[11] In the present study "character of ultimate use" is transformed into "sector of realization." Figure 1 is also influenced by those modes of talking about "cities" that insist upon looking at real exchanges in the world of activity, and that bring to the fore a geographically-oriented systems-concept based on hierarchically-organized input-output flows.[12] In the construction of Figure 1, therefore, there is an implicit rejection of the kind of approach one finds in Averitt,[13] for example, where *a-priori* variables such as size or concentration ratio rather than functionally derived variables such as location within an input-output matrix shape analysis. In Figure 1 sectoral boundaries were determined by grouping firms and segments based on the nature of their respective input-ouput matrices.[14]

Sector I, *Commodities in International Trade*, was the first nationally hegemonic capital formation in the development of North America. From the mid-nineteenth century to World War One this sector of realization was built upon the export trade in cotton and wheat, and generated a complex of service organizations in law, finance, transport, insurance, brokerage, and other services. This sector grew with the expansion of the textile capitalism of the Atlantic Community, on the one hand, and the voracious appetite for breadstuffs of the burgeoning industrial and commercial cities of Europe and America, on the other.[15] Politically, this sector was the core of the conservative internationalist wing of the Democratic Party.[16] Even the "radicalism" of the Second New Deal did not

weaken the strategic committment to the national Democratic Party, despite bitter conservative opposition to FDR's domestic policies. This only highlights the salience of international economic issues in the domain of elite politics at that time, for the conservative internationalists fought bitterly against the nomination of FDR in 1932, backing first Al Smith and then Newton Baker for the nomination. (Smith himself must be understood in the context of the intra-sectoral functional linkage between southern commodities producers and their transporation, brokerage, insurance, and wholesale services concentrated in New York.)[17]

FIGURE 1. CLASSIFICATION OF FIRMS FOR SECTORAL ANALYSIS



Sector II, the *Securities Bloc*, emerged after the Civil War out of the development of infrastructure capital in the latter part of the 19th century. It included primary materials, such as coal, iron and steel; railroads,[18] traction lines, and electric utilities; railroad cars, rails, and signals; and electric generating and transmission equipment, as well as other capital inputs to the infrastructure firms. Within this group, the regulated industries alone--transportation, communications, and public utilities--absorbed more than half of all invested capital in the United States prior to World War One.[19] The Securities Bloc, embodied in the house of Morgan,

and including such giants as U. S. Steel, General Electric, I T & T, and major segments of the rail transportation system, has been given the epithets "big business," and "monopoly capital" by its Progressive opponents.[20] Politically, the securities bloc was the socio-economic basis of the dominant faction within the Republican Party, centered on Allison, Aldrich, Platt, Spooner, and Speaker of the House Cannon, that emerged in the 1880s, and came to wield the preponderant influence in Congress. It was not until 1910, the peak of the Progressive insurgency, that this domination was successfully challanged.[21] The securities bloc is the best-known and the most notorious of the sectors of capital, and was one of the major sources of the emergent strategy of *corporate liberalism* and *corporatism*.

Sector III of Figure 1, *Mass Production and Mass Housing*, was comprised of the service organizations of mass capitalism, including, in mass retailing, the mass retailers themselves; their associated sales and advertising organizations, including a Keynesian section of the mass circulation newspapers; the financiers to mass capitalism: Goldman Sachs, Lehman Brothers, the Bank of America, and the Bowery Savings Bank; and the mass consumer-oriented manufacturing organizations in the clothing and house furnishing industries. The Bowery Savings Bank and the Bank of America occupied the financial pinnacle of the housing industry, with manufacturers of housing and construction supplies and equipment, together with more localized forces in construction and real estate, occupying the lower positions in the functional hierarchies of the realization process of this sector. It was this sector that generated the political economic strategy that by the late 1930s would be called Keynesian, and the regime-segment called the Second New Deal.

The high tech and continuous process multinationals (sectors IVa and IVb) rose to prominence after the period under discussion. Prior to that time, multinationals were primarily oriented toward the extraction of raw materials and investment in overseas infrastructure, especially utilities, and were thus functionally part of Commodities in International Trade or the Securities Bloc.[22] Sectors IVa and IVb included a number of mass-marketing-oriented manufacturing firms with highly developed sales organizations, such as IBM and Eastman Kodak, that were closely allied with the Keynesian elite (both of these firms were members of the Taylor Society); large food processors, such as General Foods, Lehn & Fink, and Continental Bakery; and modern science-based machine and instrument manufacturers, oriented toward the world market, and supplying modern, diversified capital goods, such as materials handling equipment, construction machinery, temperature control devices, and office machinery. These firms, moreover, though not integrated into the interorganizational synthesis of the

mass consumption sector, tended to form political alliances with the Keynesian elite. (The Committee for Economic Development was formed in 1942 as an alliance of the Taylor Society and the leadership of modern export-oriented machinery. Preeminent among the latter was Paul Hoffman of the Studebaker Corporation and the Cleveland Trust Corporation.[23])

x x x

Figure 1 is derived from the actual *economic* transactions between firms. A second approach to measuring sectoral patterns in the U. S. political economy involves analysis of inter-locking directorates--that is, *social* transactions between firms. Methodologically, this involves taking a random sample of biographies in *Who's Who in Commerce and Industry* (or the equivalent) for 1936. Examination of the sample shows the following most frequent directorship configurations: a hierarchically-ordered subset of securities bloc biographies, ranging from national (Morgan) and regional (Mellon) down to subregional and local elites; another subset integrating varous functions of commodities in international trade; a third centered in mass retailing and mass banking; and a fourth in metropolitan real estate, housing, finance and construction. These four categories might cover 80% of the nationally active chief executive officers. On the other hand, a significant number of the entries in our data source are small fry in the world of capital, such as tool manufacturers who sit on the boards of few if any small and medium-sized firms in closely related areas, and who cannot be considered as part of a larger banking group. However, since one does not find the chief executives of such firms anywhere near either the policy-making process or the state apparatus, for the purposes of decoding elite politics they can be ignored. Generally it is large national and international firms, or medium-sized firms integrated into national organizations, that come under our critical gaze.

x x x

A third way of examining sectoral patterns in the U. S. political eocnomy involves looking directly at the CEOs who cluster in and around the state in an advisory, policy-making, administrative, or trouble-shooting capacity. By decoding a number of frequently refered to data sets generated by corporate involvement in politics during the 1930s, we find strong sectoral patterns.

Figure 2 lists the original membership of the Business Advisory Council during the early months of Roosevelt's first term. Figure 3 lists those BAC members who in May 1935 paid a well-publicized visit to the President to express their support in the face of a rising tide of provincial capitalist reaction to the New Deal. Figure 4 lists those major business leaders who

were engaged in a series of confidential meetings in 1938/39 initiated by Mordecai Ezekiel, a leading Keynesian in the Second New Deal state.

What binds these CEOs together is no more than that, at some time between 1936 and 1939, they gave some kind of support to FDR. As vague as these parameters are, they nevertheless result in some interesting patterns. The firms represented in Figures 2 to 6 are hardly a random sample of all firms, but, at the national level, are modern multidivisional firms of considerable size and sophistication. At this level of differentiation the corporatist pardigm seems workable.

But as soon as we differentiate further (using Figure 1) we find that the BAC had, on the one hand, a significant contingent from the Keynesian financial elite (these firms belong in Sector III); and, on the other hand, there were a number of independent high tech and mass consumer-oriented multinationals (sectors IVa and IVb). Moreover, the BAC contingent that supported the President in 1935 was smaller than the 1933 group, and it had a much heavier representation from the mass consumption sector. Figure 4, the 1939 Ezekiel list of corporatists, is more homogenous--and more representative of the corporatist configuration described by Himmelberg: " . . . The relatively less profitable . . . older and more developed, usually producers' goods, industries."[24] (The data for this Figure was generated by Mordecai Ezekiel's efforts to absorb this corporate elite into a political synthesis dominated by the Keynesians.[25]) As can be seen from these Figures, there was too much diversity, and too much change over time, within these "reformist" corporate groups to permit the blanket use of the term "corporatism." In fact, what we see in these figures is the sectoral basis for the tripartite structure of "bipartisanship" that would emerge after World War Two.

To see how this sectoral approach clarifies the patterns of political-economic segmentation of the Roosevelt regime, we can look at patterns of campaign contributions in 1936. The campaign of 1936, we recall, was marked by the use of bitter class rhetoric, and represented the high point of political polarization. In 1935/36 the National Association of Manufacturers and the United States Chamber of Commerce were swept by waves of popular reaction; and we know from the Ezekiel correspondence that most of these corporatists (Figure 4) opposed the more radical human capital and planning aspects of the New Deal, although they strongly favored government intervention in corporatist planning efforts[26] Thus, the patterns of support for FDR in this critical year 1936 should tell us something about the *core* support for Keynesian strategies among sectors of capital.

Figure 5, *The Keynesian Elite in the Second New Deal, 1936-1938: Capital Configurations*, contains three main elements. To the left is an expansion of Sector III of Figure 1. The center column lists the firms most closely associated with the Second New Deal *circa* 1936. It is based on lists of contributions to FDR's reelection campaign of that year, augmented by inclusion of those firms whose CEOs played important roles in shaping the radical New Deal's overall policies. (Excluded from this list are conservative internationalist CEOs who also contributed to FDR's reelection camapaign, but from a different strategic standpoint.) At this level of analysis the predominance of mass-oriented financial, retailing, and publishing organizations in the Second New Deal is evident.[27]

On a regional level of analysis--New York, Omaha and Seattle--there is an entirely different configuration of firms, based largely in real estate and housing. The New York close-up in Figure 5 was generated in the following way. In the FDR list there was a set of contributors defined by their absence from *Who's Who in America* and by their presence in *Who's Who in New York*. This is one way of determining a firm's regional rather than national political signficance. The third column of Figure 5, the list of "Liberal Businessmen," was generated when Mordecai Ezekiel, preeminent Keynesian economist and planner in the Roosevelt Adminstration (Henry Wallace's chief economist), used his connections within the Rural Electrification Administration to canvass the United States for political support for FDR in 1937/38. This resulted in regional patterns isomorphic to the New York close-up. (This is Ezekiel's 1937/38 Keynesian list, to be distinguished from his 1939 corporatist list.)

Figure 6, GOP Corporate Support: Campaign Contributions, 1936, provides the expected complement to Figure 5, and effects closure on our data base. For the most part, corporate support for the Republican Party came from the large firms of the Securities Bloc, especially those firms more oriented toward the national market. On the other hand, it is important to note that as key financial and manufacturing segments of the Securities Bloc got more deeply into global investment strategies, they moved toward support for the internationalism that, in the 1920s and thirties, was more closely identified with the Wilsonians in the Democratic Party.[28] Important representatives of the internationalist segment of the Securities Bloc were Henry Stimpson, John Foster Dulles, Gerard Swope, and Edward R. Stettinius, of Sullivan and Cromwell, Sullivan and Cromwell, General Electric, and U.S. Steel, respectively.[29]

An important exception to this failure to note sectoral conflict is Thomas Ferguson's article, "From Normalcy to New Deal." Ferguson has