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HERBERT HOOVER AND THE CRISIS OF AMERICAN CAPITALISM

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Public

EDITORS' INTRODUCTION

Among the casualties of the First World War was the Progressive Era. Disillusioned with Wilsonian idealism both in the realm of international relations and at home, many Americans—while still anticipating “progress,” especially in the material sense—now longed for some easier route to its achievement than the path of ideological and institutional reform followed during the Progressive Era. Simultaneously, wartime and postwar tensions sharpened the half-hidden lines of cleavage that existed within the American population along economic, demographic, and ethnic lines, rendering almost impossible the kind of multi-interest group cooperation that had been essential to the enactment of reform measures during the prewar decade.¹

The chief beneficiaries of the disorganization and ill repute that befell the forces of progressivism after 1918 were the nation's business interests. Capitalizing on the favorable circumstances that the postwar atmosphere afforded, businessmen and their political associates quickly and successfully rose to the occasion in reasserting their claim to the largest role in charting the nation's destiny. Yet inevitably, in view of the profound changes that had taken place during the reform era, the creed upon which they based their claim differed in important respects from that of their predecessors in the Gilded Age. Already during the Progressive Era some business spokesmen had begun to update their message, partly out of sincere conviction, partly because of the growing importance of the consumer in the modern American economy, and partly as a tactic designed to fend off even greater incursions into their domain by government, labor organizations, and social-justice crusaders. In the 1920's their handiwork became the credo not only of the articulate business commu-

nity, but of most Americans as well. Conservative it may have been in some respects, but "reactionary" it was not.

The essence of the New Era philosophy of "welfare capitalism" was the assertion that American businessmen had come to look upon public service, rather than private profit, as the main objective of their exertions. Seldom now (at least in public) did business publicists invoke the tones of a harsh and somewhat pessimistic Social Darwinism, which ordained that there should be many losers and but few winners in the "struggle for existence." Instead, the enlightened entrepreneur was depicted as an industrial statesman who could be trusted to direct the development of America's vast riches and the distribution of their fruits, in ways that would benefit *all* classes of citizens—workers, farmers, and consumers alike, as well as the managers and "coupon-clippers" themselves. Business, Americans were told, had learned that high wages and low prices were the key to success in a mass-production economy. Lower unit profits might be the short-term result, but a larger volume of sales would insure long-range stability of income—a much greater asset to the individual firm and to industry as a whole. Thus might Americans be led further along the upward path toward a higher standard of living upon which the liberals of the Progressive Era also had embarked, but from which they had strayed too far to the "left" in the direction of governmental initiative and social control.

Of course, if business was to carry out its "redemptive and regenerative mission," as one exuberant publicist in the 1920's put it, the American people must provide an encouraging "business climate." This meant, among other things, that they must be willing to accept the inevitability and desirability of "bigness" in modern industrial operations. Only in that way could the country's economic statesmen take full advantage of technological advances, industrial research, scientific management, and all the other economies of mass production that they had uncovered. Unwarranted and self-defeating attacks on Big Business must therefore cease. In fact, if small businessmen themselves were to prosper and shoulder their load in improving the public welfare, they too must discard the outdated belief that "competition is the life of trade." Instead, by pooling their know-how and taking the edge off "cut-throat competition" through the formation of trade associations, they too would be able to reap some of the benefits of cooperation in ways that would bring greater order and stability to their industries, more regularity of profits to individual companies, and better products to the public.

Under the new dispensation government was expected to direct its policies toward improving the business climate. The main tenet remained the injunction to refrain from activities that might impair the all-import-

tant morale of the business community, such as unnecessary "interference" with business or unbalancing the national budget (except in wartime). Yet seldom did the business statesmen of the 1920's speak in terms of complete laissez faire. More so than their predecessors, the exponents of welfare capitalism were willing to lengthen the list of positive functions whereby government might assist business in fulfilling its mission.

In addition to tariff protection, tax incentives, and subsidies to "essential industries," business leaders of the postwar decade were happy to accept new forms of governmental encouragement such as the service rendered by the Department of Commerce in searching out new markets abroad and facilitating, or even initiating, the formation of trade associations at home. Those who attended President Warren G. Harding's Washington economic conference in 1921 even supported the idea that government should step up its public works program in times of depression so as to absorb the slack in private investment and consumption—provided that such expenditures did not unbalance the budget. Soon after his election in 1928, President-elect Herbert Hoover went so far as to endorse the concept of a "prosperity reserve fund," whereby part of surplus government income in "good" times would be set aside for public works to be launched in periods of economic slump.

In short, the New Era philosophy added up to a picture of harmonious partnership between government and business on behalf of individual, corporate, and national progress. It was in this context, and not without a semblance of idealism of a sort, that President Harding could utter his famous dictum: "What this country needs is less government in business, and more business in government;" and that President Calvin Coolidge could act the role of high priest of the New Era by intoning that: "The man who builds a factory builds a temple. The man who works there, worships there." In 1929, when Coolidge's mantle passed to Secretary of Commerce Hoover—the most articulate, hard-working, and sincerest exponent of welfare capitalism that the decade produced—the new president assured his countrymen that they were "nearer to the final triumph over poverty than ever before in the history of any land." John L. Lewis, the hard-nosed leader of the United Mine Workers, hailed the new president as "the foremost industrial statesman of modern times," while pundit Walter Lippmann, who had himself helped carry the torch of progressivism in the previous decade, conceded that "the . . . activities of businessmen are for once more novel, more daring, and in general more revolutionary, than the theories of the progressives." "Big business in America," opined Lincoln Steffens, the erstwhile muckraker of the Progressive Era, "is producing what the Socialists held up as their goal: food, shelter, and clothing for all. You will see it during the Hoover

administration." In such assessments resided proof enough of the thoroughness with which cheerful boosters of the New Era philosophy of welfare capitalism had carried all before them.²

A short time later, as the stock market crash in the fall of 1929 gave way to deepening recession and the Great Depression, Hoover's faith in welfare capitalism was put to the sternest test possible.³ It is here that the analyses provided by the contributors to this volume converge. All four authors seem to agree on the nature and major tenets of Hoover's creed, despite some disagreement among them on its origins and the formative influences that developed his thought. Their major disagreements, however—and the points that continue to divide scholars, publicists, and makers of public policy today—center about the results of welfare capitalism as applied to the nation's ailing economy during the Hoover administration, and about its viability as an alternative to twentieth-century American liberalism (or welfare *statism*) in guiding the nation's political-economic development in the modern world.

The first author, Ellis W. Hawley, adheres closest to the liberal, New Deal interpretation, which emphasizes the shortcomings of welfare capitalism in modern industrial society, and blames Hoover's rigid adherence to that philosophy for the immense proportions that the Great Depression attained prior to March 4, 1933.⁴ On the other hand Murray N. Rothbard, one of today's leading spokesmen for the traditional *laissez faire* doctrines of the right, considers the welfare capitalism spawned by the 1920's to be a close link with the New Deal in forging the regimented system of "political capitalism" that dominates the American system today; in his view, therefore, Hoover stands as a precursor of Franklin D. Roosevelt.⁵ Rothbard pictures Hoover as stepping back from "the abyss of fascism" at the last moment in 1932 by rejecting businessmen's calls for a kind of NRA scheme that Roosevelt would prove willing to grant ("It was Herbert Hoover's finest hour," Rothbard writes). The next essayist, Robert F. Himmelberg, believes, however, that the president's distrust of Big Business's drive for cartelization manifested itself much earlier. Taking his cue from William Appleman Williams, a giant among historians of the New Left persuasion, Himmelberg suggests that although Hoover's public utterances were of necessity directed primarily against congressional advocates of Big Government, a close examination of Hoover's writings and of the actual policies of his administration indicate that the president regarded possible domination of government by Big Business as an equally dangerous source of potential tyranny.⁶ Whereas the first three contributors discuss Hoover's administration essentially in terms of its ideological and programmatic content our fourth historian,

Gerald D. Nash, analyzes Hoover as a political figure. Nash maintains that the president's shortcomings as a *politician* were the main cause of his failure to win a fair test of his principles in application during the first years of the depression. The implication is that our political democracy imposes double demands on the would-be statesman: not only must his policies be correct, but he must also prove himself adept in the art and craft of practical politics. Few, indeed, have been able to pass muster on both counts.⁷

Hoover's political-economic philosophy surely remains a lively subject for investigation by historians and must certainly have something to contribute to the on-going debate over proper management of America's industrial civilization. Particularly striking is the sympathetic hearing that President Hoover and his principles of individualism, decentralization, and voluntarism command among elements of both the right and the New Left on today's political spectrum. For while liberals of the "unreconstructed" New Deal type continue to advocate attempts to solve social problems by piling federal programs and appropriations still higher, long-time adherents of Hoover's brand of conservatism and their newfound allies on the left, complain that successive federally-directed "wars on poverty" have only produced a centralized bureaucracy in government, a version of fascism or syndicalism in an economy increasingly dominated by an industrial-military elite, and a feeling of alienation among Americans frustrated by the rise of giantism on all sides. The proposed solutions for today's societal ills which they set forth therefore emphasize decentralization of governmental and corporate responsibility, and a search for community action that will restore the individual citizen's sense of control over his own and society's destiny.

Such are the kinds of questions of current relevance that this exchange of views on the Hoover administration and the New Era philosophy of welfare capitalism will hopefully engender among the readers of this volume. At the same time, however, the reader should be cautioned to maintain his sense of historical perspective. For while it may (or may not) be true that bureaucracy and centralization have today reached the point of diminishing returns or counter-productivity, it is not necessarily true that such policy directions were therefore "wrong" in the context of the Great Depression of forty or more years ago. To put it another way: Although Americans of the 1970's might have something to gain by re-instituting parts of the Hoover system, it is not necessarily true that his system would have sufficed to meet the needs of the depression generation and the problems it faced.

Thus this volume is intended to introduce students to the study of an

important period in recent American history, and at the same time to stimulate and inform their thinking about policy alternatives and life styles available in confronting today's issues. Certainly, shortsighted and misdirected evaluations were offered by earlier generations of historians of the 1920's, for no longer can that period be considered as merely an insignificant, conservative interlude sandwiched in between the dynamic, reformist eras of progressivism and the New Deal. Similarly, few would deny that mistakes of one kind or another were made during the Hoover phase of America's Great Depression: by the nation's industrial statesmen, by the president himself, by the citizenry that elected him in 1928 and then repudiated him in 1932, or perhaps by all of them combined. And while history seldom repeats itself in precise detail, re-examination of America's experience under the sway of welfare capitalism may help us avoid repeating some of the errors of the past as we confront the portentous crises of today and tomorrow.

J. JOSEPH HUTHMACHER
WARREN I. SUSMAN

NOTES

¹ For vivid descriptions of some important aspects of the post-World War scene see Gene Smith, *When the Cheering Stopped: The Last Years of Woodrow Wilson* (New York: Morrow, 1964); John D. Hicks, *Rehearsal for Disaster: The Boom and Collapse of 1919-1920* (Gainesville: University of Florida Press, 1961); David Brody, *Labor in Crisis: The Steel Strike of 1919* (Philadelphia: Lippincott, 1965); and Robert K. Murray, *Red Scare: A Study in National Hysteria, 1919-1920* (Minneapolis: University of Minnesota Press, 1955) and *The Harding Era* (Minneapolis: University of Minnesota Press, 1969).

² On business thought and rhetoric during the 1920's see Morrell Heald, *The Social Responsibilities of Business: Company and Community, 1900-1960* (Cleveland: The Press of Case Western Reserve University, 1970); James W. Prothro, *The Dollar Decade: Business Idea in the 1920's* (Baton Rouge: Louisiana State University Press, 1954); Herbert Hoover, *American Individualism* (Garden City, N. Y.: Doubleday, Page & Co., 1922); Edward R. Bernays, *Biography of an Idea: Memoirs of Public Relations Counsel Edward L. Bernays* (New York: Simon and Schuster, 1965); Edward A. Filene, *The Way Out: A Forecast of Coming Changes in American Business and Industry* (Garden City, N. Y.: Doubleday, Page & Co., 1924); and Joseph Brandes, *Herbert Hoover and Economic Diplomacy: Department of Commerce Policy, 1921-1928* (Pittsburgh: University of Pittsburgh Press, 1962). For pioneer theorists of welfare capitalism see Arthur J. Eddy, *The New Competition . . . The Change from a Competitive to a Cooperative Basis* (Chicago: A. C. McClurg & Co., 1915); and W. L. Mackenzie King, *Industry and Humanity* (Boston: Houghton Mifflin, 1918).

³ On the Wall Street debacle see J. K. Galbraith, *The Great Crash, 1929* (Boston: Houghton Mifflin, 1955); and Robert Sobel, *The Great Bull Market: Wall Street in the 1920's* (New York: Norton, 1968).

⁴Cf. Arthur M. Schlesinger, Jr., *The Crisis of the Old Order, 1919-1933* (Boston: Houghton Mifflin, 1957); Albert U. Romasco, *The Poverty of Abundance: Hoover, the Nation, The Depression* (New York: Oxford University Press, 1965); Gene Smith, *The Shattered Dream: Herbert Hoover and the Great Depression* (New York: Morrow, 1970); and Jordan A. Schwartz, *The Interregnum of Despair: Hoover, Congress, and the Depression* (Urbana: University of Illinois Press, 1970). For variations on this general interpretation see Harris Gaylord Warren, *Herbert Hoover and the Great Depression* (New York: Oxford University Press, 1959); Carl N. Degler, "The Ordeal of Herbert Hoover," *Yale Review*, LII (June 1963), pp. 563-583; and Richard Hofstadter, *The American Political Tradition and the Men Who Made It* (New York: Alfred Knopf, 1948).

⁵ See also Murray N. Rothbard, *America's Great Depression* (Princeton, N. J.: Van Nostrand, 1963); Friedrich von Hayek, *The Road to Serfdom* (Chicago: University of Chicago Press, 1944); and Milton Friedman, *Capitalism and Freedom* (Chicago: University of Chicago Press, 1962).

⁶ See William Appleman Williams, *The Contours of American History* (Cleveland: World Publishing Company, 1961) and "What This County Needs. . ." *New York Review of Books* (Nov. 5, 1970), pp. 7ff.

⁷ For favorable accounts of Hoover's policies and politics see Herbert Hoover, *Memoirs: The Cabinet and Presidency, 1920-1933 and The Great Depression, 1929-1941* (New York: Macmillan, 1951-1952); William Starr Myers and Walter H. Newton, *The Hoover Administration: A Documented Narrative* (New York: Scribner's, 1936); and Ray Lyman Wilbur and Arthur M. Hyde, *The Hoover Policies* (New York: Scribner's, 1937).