From Normalcy to New Deal: industrial structure, party competition, and American public policy in the Great Depression

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In October 1929, only weeks after Yale economist (and investment trust director) Irving Fisher publicly announced that "stock prices have reached what looks like a permanently high plateau," and virtually on the day that J. P. Morgan partner Thomas W. Lamont reassured President Herbert Hoover that "there is nothing in the present situation to suggest that the normal economic forces . . . are not still operative and adequate," the New York Stock Exchange crashed.[1] Over the next few months the market continued

This article summarizes part of the argument of my *Critical Realignment: The Fall of the House of Morgan and the Origins of the New Deal* (New York: Oxford University Press, forthcoming) and sharpens considerations advanced in "Von Versailles zum New Deal," a catalog-essay in Neue Gesellschaft für Bildende Kunst, *Amerika, Traum und Depression* (Berlin: 1980), pp. 436–50. To reduce documentation to manageable proportions, I have strictly limited references to no more than are absolutely necessary for precision of argument.

The same space limitations make it impossible to acknowledge all who have aided my research. For very helpful comments on drafts of this paper, however, I should like to thank Lawrence Goodwyn, Charles Kindleberger, James Kurth, Mira Wilkins, the members of Harvard University's Economic History Research Seminar, and the editors of *International Organization*. I am also very grateful to Alfred Chandler both for comments and for affording me a look at two unpublished papers on the evolution of big business ("Global Enterprise: Economic and National Characteristics—An Historical Overview," and "The M Form—Industrial Groups, American Style").

For providing me with unrestricted access to his personal papers and unique insights into the New Deal, I am grateful to a leader of the independent oil men in Texas during the New Deal, Mr. J. R. Parten, now of Madisonville, Texas. For other assistance in securing material I also thank Mr. and Mrs. Everett Case, Anthony Garvan, Mr. and Mrs. John W. Coolidge Jr., Herbert Gintis, Charles Harvey, and Mrs. Rene Leon. Other valuable assistance came from Walter Dean Burnham, Bruce Cumings, Gerald Epstein, Henry Farber, Peter Gourevitch, Robert Johnson, Lola Klein, Duane Lockard, Martin Shefter, Peter Temin, and more librarians than can be named here.

1. See, among many other comments on Fisher's unfortunate pronouncement, John Kenneth Galbraith, *The Great Crash* (Boston: Houghton Mifflin, 1961), p. 75. The Irving Fisher Papers at Sterling Library, Yale University, contain many references to his service on boards of investment companies and Remington Rand, a major manufacturer. Fisher's later role in New Deal monetary controversies made these ties an object of extensive comment. The final copy and various drafts of Lamont's letter to Herbert Hoover of 19 October 1929 are in the Lamont Papers, Baker Library, Harvard University. (Most archives used in this project are adequately indexed; box numbers are provided for the reader's convenience only where confusion seems likely.)

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dropping, and a general economic decline took hold.[2] As sales plummeted, industry after industry laid off workers and cut wages. Farm and commodity prices tumbled, outpacing price declines in other parts of the economy. A tidal wave of bankruptcies engulfed businessmen, farmers, and a middle class that had only recently awakened to the joys of installment buying.[3]

While the major media, leading politicians, and important businessmen resonantly reaffirmed capitalism's inherently self-correcting tendency, havoc spread around the world. By 1932, the situation had become desperate. Many currencies were floating and international finance had virtually collapsed. In part because of the catastrophic fall in income and in part from mushrooming tendencies toward consciously pursued policies of trade restriction, world trade had shrunk to a fraction of its previous level. In many countries one-fifth or more of the workforce was idle. Homeless, often starving, people camped out in parks and fields, while only the virtual collapse of real-estate markets in many districts checked a mammoth liquidation of homes and farms by banks and insurance companies.[4] As a new *spiritus diaboli*, Fascism, joined the old specter, Communism, to haunt Europe and the world, conflicts multiplied both within and between nation states.

In this desperate situation, with regimes changing and governments falling, a miracle seemed to occur in the United States, the country that, among all the major powers in the capitalist world economy, had perhaps been hit hardest. Taking office at the moment of the greatest financial collapse of the nation's history, President Franklin D. Roosevelt initiated a dazzling burst of government actions designed to square the circle that was baffling governments elsewhere: how to enact major social reforms while preserving both democracy and capitalism. In a hundred days his administration implemented a series of emergency relief bills for the unemployed; an Agricultural Adjustment act for farmers; a bill (the Glass-Steagall Act, also sometimes referred to as the "Banking Act of 1933") to "reform" the banking structure; a Securities Act to reform the Stock Exchange; and the National Industrial Recovery Act, which in effect legalized cartels in American industry.[5] Roosevelt suspended the convertibility of the dollar into gold, abandoned the gold standard, and enacted legislation to promote American exports. He also presided over a noisy public investigation of the most famous banking house in the world: J. P. Morgan & Co.

2. For a review of debates on the stock market's contribution to the Depression, see Peter Temin, *Did Monetary Forces Cause the Great Depression?* (New York: W. W. Norton, 1976).
3. For a good summary of the Depression's effects on the economy, see Lester Chandler, *America's Greatest Depression* (New York: Harper, 1970).
4. Ibid. For the Depression in comparative context, see Charles Kindleberger, *The World in Depression* (London: Allen Lane, 1973).
5. The 1933 Banking Act, also commonly referred to as *the* Glass-Steagall Act, should not be confused with a 1932 bill that bore the names of the same senator and representative but dealt with different financial issues. The Emergency Banking Legislation, rammed through Congress in a matter of days in March 1933, was also a different bill.

For a while this "First New Deal" package of policies brought some relief, but sustained recovery failed to arrive and class conflict intensified. Two years later, Roosevelt scored an even more dramatic series of triumphs that consolidated his position as the guardian of all the millions, both people and fortunes. A second period of whirlwind legislative activity in 1935 produced the most important social legislation in American history—the Social Security and Wagner acts—as well as measures to break up public utility holding companies and to fix the price of oil. The president also turned dramatically away from his earlier economic nationalism. He entered into agreements with Britain and France informally to stabilize the dollar against their currencies and began vigorously to implement earlier legislation that empowered Secretary of State Cordell Hull to negotiate a series of treaties reducing U.S. tariff rates.[6]

After winning one of the most bitterly contested elections in American history by a landslide (and giving the coup de grace to the old Republican-dominated "System of 1896"), Roosevelt consolidated the position of the Democrats as the new majority party of the United States.[7] He passed additional social welfare legislation and pressured the Supreme Court to accept his reforms. Faced with another steep downturn in 1937, the Roosevelt team confirmed its new economic course. Rejecting proposals to revive the National Recovery Administration (NRA) and again devalue the dollar, it adopted an experimental program of conscious "pump priming," which used government spending to prop up the economy in a way that foreshadowed the "Keynesian" policies of demand management widely adopted by Western economies after 1945. This was the first time this had ever been attempted—unless one accepts the Swedish example, which was virtually contemporaneous.[8]

Roosevelt and his successive New Deals have exercised a magnetic attraction on subsequent political analysts. Reams of commentary have sought to elucidate what the New Deal was and why it evolved as it did. But while the debate has raged for over forty years, little consensus exists about how best to explain what happened.

Many analysts, including most of those whose major works shaped the American social sciences and historiography of the last generation, have

6. The first of several New Deal reciprocal trade measures passed rather early in Roosevelt's first term, but, as explained below, it had virtually no immediate effect on the administration's essentially protectionist trade policy.

7. The "System of '96" reference is to the discussion of "party systems" and American electoral behavior by analysts such as V. O. Key and Walter Dean Burnham. See, for example, Burnham's "The System of '96: An Analysis," in Paul Kleppner et al., *The Evolution of American Electoral Systems* (Westport, Conn.: Greenwood Press, 1981), pp. 147–202.

8. The role of "Keynesian" public finance versus a bulging export surplus in leading the Swedish revival of the mid and latter 1930s has been extensively debated; the weight of the evidence suggests that the Swedish government did not vigorously implement the advanced monetary and fiscal proposals that were undeniably in the air.

always been convinced that the decisive factor in the shaping of the New Deal was Franklin D. Roosevelt himself.[9] They hail his sagacity in fashioning his epoch-making domestic reforms. They honor his statecraft in leading the United States away from isolationism and toward Atlantic Alliance. And they celebrate the charisma he displayed in recruiting millions of previously marginal workers, blacks, and intellectuals into his great crusade to limit permanently the power of business in American life.

Several rival accounts now compete with this interpretation. As some radical historians pose the problem, only Roosevelt and a handful of advisers were farsighted enough to grasp what was required to save capitalism from itself.[10] Accordingly, Roosevelt engineered sweeping attacks on big business for the sake of big business's own long-run best interest. (A variation on this theme credits the administration's aspirations toward reform but points to the structural constraints capitalism imposes on any government as the explanation for the New Deal's conservative outcome.)

Another recent point of view explains the New Deal by pointing to the consolidation and expansion of bureaucratic institutions. It deemphasizes Roosevelt as a personality, along with the period's exciting mass politics. Instead, historians like Ellis Hawley (in his latest essays) single out as the hallmarks of the New Deal the role of professionally certified experts, and the advance of organization and hierarchical control.[11]

Some of these arguments occasionally come close to the final current of contemporary New Deal interpretation. This focuses sharply on concrete interactions between polity and economy (rather than bureaucracy per se) in defining the outcome of the New Deal. Notable here are the (mostly West German) theorists of "organized capitalism," several different versions of Marxist analysis, right-wing libertarian analysts who treat the New Deal as an attempt by big business to institutionalize the corporate state, and Gabriel Kolko's theory of "political capitalism."[12]

9. See, for example, Arthur Schlesinger Jr., *The Age of Roosevelt*, 3 vols. (Boston: Houghton Mifflin, 1957–60); William Leuchtenburg, *Franklin D. Roosevelt and the New Deal* (New York: Harper, 1963); and Frank Freidel, *Franklin D. Roosevelt*, 4 vols. (Boston: Little, Brown, 1952–). Erwin Hargrove observes how images of Roosevelt and the presidency derived from such works have dominated postwar political science, in his *The Power of the Modern Presidency* (New York: Knopf, 1974), chap. 1.

10. See, for example, Barton Bernstein, "The New Deal: The Conservative Achievements of Liberal Reform," in Bernstein, ed., *Toward a New Past: Dissenting Essays in American History* (New York: Pantheon, 1968), and Ronald Radosh, "The Myth of the New Deal," in Radosh and Murray N. Rothbard, eds., *A New History of Leviathan* (New York: Dutton, 1972), pp. 146–86.

11. See, for example, Hawley's "The Discovery and Study of a 'Corporate Liberalism,'" *Business History Review* 52, 3 (1978), pp. 309–20. In contrast, his classic *The New Deal and the Problem of Monopoly* (Princeton: Princeton University Press, 1962) does not emphasize these themes. See also Alfred Chandler and Louis Galambos, "The Development of Large Scale Economic Organizations in Modern America," in E. J. Perkins, ed., *Men and Organizations* (New York: Putnam, 1977).

12. For a review of the West German work see H. A. Winkler, ed., *Die Grosse Krise in America* (Göttingen: Vandenhoech & Ruprecht, 1973); perhaps the finest of the libertarian

These newer approaches provide telling criticisms of traditional analyses of the New Deal. At the same time, however, they often create fresh difficulties. "Organized capitalism," "political capitalism," or the libertarian "corporate state" analyses, for example, are illuminating with respect to the universal price-fixing schemes of the NRA. But the half-life of the NRA was short even by the admittedly unstable standards of American politics. The historic turn toward free trade that was so spectacularly a part of the later New Deal is scarcely compatible with claims that the New Deal institutionalized the collective power of big business as a whole, and it is perhaps unsurprising that most of this literature hurries over foreign economic policy. Nor are more than token efforts usually made to explain in detail why the New Deal arrived in its classic post 1935 form only after moving through stages that often seemed to caricature the celebrated observation that history proceeds not along straight lines but in spirals. It was, after all, a period in which the future patron saint of American Internationalism not only raised more tariffs than he lowered but also openly mocked exchange-rate stability and the gold standard, promoted cartelization, and endorsed inflation.[13] Similarly, theorists who treat the New Deal chiefly as the bureaucratic design of credentialed administrators and professionals not only ignore the significance of this belated opening to international trade in the world economy, but they also do less than full justice to the dramatic business mobilization and epic class conflicts of the period.

Nor do any of these accounts provide a credible analysis of the Democratic Party of the era. Then, as now, the Democratic Party fits badly into the boxes provided by conventional political science. On the one hand, it is perfectly obvious that a tie to at least part of organized labor provides an important element of the party's identity. But, on the other, it is equally manifest that no amount of cooptation accounts for the party's continuing collateral affiliation with such prominent businessmen as, for example, Averell Harriman. Why, if the Democrats truly constituted a mass labor party, was the outcome of the New Deal not more congruent with the traditional labor party politics of Great Britain and Germany? And, if the Democrats were not a labor party, then what force inside it was powerful enough to contain the CIO and simultaneously launch a sweeping attack on major industrial interests?[14] These analyses also slip past the biggest puzzle that the New Deal

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writings are those by Murray Rothbard—see his "War Collectivism in World War I," and "Herbert Hoover and the Myth of Laissez-Faire," both in Radosh and Rothbard, *New History of Leviathan*; for Kolko's views see his *Main Currents in Modern American History* (New York: Harper & Row, 1976).

13. Some commentators, such as Elliot Rosen in his very stimulating *Hoover, Roosevelt and the Brains Trust* (New York: Columbia University Press, 1977, hereafter *Brains Trust*), have questioned the existence of "two New Deals." These doubts, however, are difficult to sustain if one systematically compares the policies pursued during each period.

14. Sidney Verba and Kay Schlozman's recent suggestion that American workers remained captivated by the American Dream all through the New Deal does not constitute an answer. The "American Dream," before the 1930s, had not included mass unionization or social security—the term is elastic. See their "Unemployment, Class Consciousness, and Radical Politics: What Didn't Happen in the Thirties," *Journal of Politics* 39, 2 (1977), pp. 291–323.

poses. They offer few clues as to why some countries with militant labor movements and charismatic political leaders in the Depression needed a New Order instead of a New Deal to control their workforce.

Nor has theory, especially economic theory, figured significantly in most of these studies. The centrality of issues like the money supply, international finance, and macroeconomic policy has failed to come into focus. Important theoretical discussions (like debates over Federal Reserve policy during the period) echo only faintly, or not at all, in more general writing, while neoclassically inclined economists have thus far ignored all aspects of the New Deal that create difficulties for their particular theoretical viewpoint.[15]

In this article I contend that a clear view of the New Deal's world historical uniqueness and significance comes only when one breaks with most of the commentaries of the last thirty years, goes back to primary sources, and attempts to analyze the New Deal as a whole in the light of explicit theories about industrial structure, party competition, and public policy. Then what stands out is the novel type of *political coalition* that Roosevelt built. At the center of this coalition, however, are not the workers, blacks, and poor who have preoccupied liberal commentators, but something else: a new "historical bloc" (in Gramsci's phrase) of capital-intensive industries, investment banks, and internationally oriented commercial banks.

This bloc constitutes the basis of the New Deal's great and, in world history, utterly unique achievement: its ability to accommodate millions of mobilized workers amidst world depression. Because capital-intensive firms use relatively less direct human labor (and that often professionalized and elaborately trained), they were less threatened by labor turbulence. They had the space and the resources to envelop, rather than confront, their workforce. In addition, with the momentous exception of the chemical industry, these capital-intensive firms were world as well as domestic leaders in their industries. Consequently, they stood to gain from global free trade. They could, and did, ally with important international financiers, whose own miniscule workforce presented few sources of tension and who had for over a decade supported a more broadly international foreign policy and the lowering of traditionally high American tariffs.

In the first part of this article I develop a formal theory of industrial partisan preference as the joint consequence of class conflict and the differential impact of the world economy on particular businesses. I also relate the theory to the Key-Burnham-SRC discussions of party systems and critical realignments, arguing that transformations of elite industrial coalitions lie

15. See the discussion in Milton Friedman and Anna Schwartz, *A Monetary History of the United States* (Princeton: Princeton University Press, 1963); Temin, *Monetary Forces*; Karl Brunner and Alan Meltzer, "What Did We Learn from the Monetary Experience of the United States in the Great Depression," *Canadian Journal of Economics* 1, 2 (1968), pp. 334–48; Elmus Wicker, "Federal Reserve Monetary Policy, 1922–33—A Reinterpretation," *Journal of Political Economy* 53 (August 1965), pp. 325–43, and later writings.

behind the phenomena voting analysts have for so long tried to analyze. This section also presents an explicit account of the dynamics of the transition from the so-called "System of 1896" to the New Deal.

In the second part I outline the major elements of the coalition that triumphantly came together during and after Roosevelt's Second New Deal—the coalition that, in its successive mutations, dominated American politics until Jimmy Carter. Employing the first part's theoretical framework, I sketch the systematic, patterned disintegration of the System of '96 and the simultaneous emergence of another New Deal bloc, whose interests and ideology shaped what can conveniently be termed "multinational liberalism."

1. Party competition and industrial structure

My principal argument divides conveniently into two subordinate parts. The first, what might be called the "static theory of industrial partisan preference," builds on recent work by James Kurth, Peter Gourevitch, and Douglas Hibbs, among others.[16] Introducing first the "labor constraint" and then issues in international political economy, I present an abstract, basic model of partisan choice by particular industries and firms exhibiting differential sensitivity to class conflict and foreign economic policy issues. Following two earlier articles, I show how the policy—and hence, partisan—choices of these firms define the durable "party systems" extensively discussed by analysts of mass voting behavior.[17] I also demonstrate a method for the measurement and graphical analysis of these political coalitions.

The second spells out the dynamic implications of the static model. It investigates how major changes in the level of national income (i.e., long booms or major depressions) affect party systems and political coalitions. Major spurts of economic growth and protracted economic decline, runs the argument, destabilize political coalitions in quite specific, predictable ways. By tracing how steadily rising or falling income affects a given industrial

16. Kurth, "The Political Consequences of the Product Cycle: Industrial History and Political Outcomes," *International Organization* 33 (Winter 1979), pp. 1–34; Gourevitch, "International Trade, Domestic Coalitions and Liberty: Comparative Responses to the Crisis of 1873–96," *Journal of Interdisciplinary History* 8, 2 (1977), pp. 281–313; Hibbs, "Political Parties and Macroeconomic Policy," *American Political Science Review* 71, 4 (1977), pp. 1467–87.

17. I build here on my "Elites and Elections, or What Have They Done to You Lately? Toward an Investment Theory of Political Parties and Critical Realignment," in Benjamin Ginsberg, ed., *Do Elections Matter* (Reading, Mass.: Addison-Wesley, in press); and "Party Realignment and American Industrial Structure: The Investment Theory of Political Parties in Historical Perspective," in Paul Zarembka, ed., *Research in Political Economy*, vol. 6 (Greenwich, Conn.: JAI Press, 1983). These papers introduce an "investment theory of political parties." This approach emphasizes the crippling lack of resources and high "barriers to entry" that ordinary voters face in attempting to act politically, as well as certain special properties of markets for so-called "public goods" that uniquely advantage relatively small groups of large investors.

structure, one glimpses the logic by which earlier coalitions, built around increasingly obsolescent combinations of trade and labor, decay, while new coalitions arise. One also comes to understand how booms and depressions characteristically generate brief but intense conflicts over certain issues, notably money and finance, which can enormously complicate transitions from one party system to another. By examining in detail how such forces affect the basic model of the System of '96's partisan cleavages, I provide an account of the dynamics of the New Deal—one that explains not only the long-run evolution of the System of '96 into the New Deal but also the complex sequence of apparently contradictory policy changes through which the New Deal evolved before it assumed its classic, "Second New Deal" form.

The static theory

The basic argument connecting industrial structure to political parties and public policy is uncomplicated. It follows from two widely acknowledged facts. The first can be summarized as the ubiquitous and enduring presence of social class conflicts within the electoral systems of virtually all countries permitting at least moderately free elections and modestly competitive political parties. As one careful quantitative study of the cross-national evidence recently observed, "Although the importance of socioeconomic status as a basis of electoral cleavage varies substantially across party systems, the mass constituencies of political parties in most advanced industrial societies are distinguished to a significant extent by class, income, and related socioeconomic characteristics."[18] The second merely highlights the policy consequences of the first: the actual influence of labor and the working classes on public policy varies substantially over time, both within and across countries.[19]

Thus, as a long and distinguished tradition of social theory emphasizes and evidence from some, but not all, countries suggests, it might well be the case that labor's ability to dominate a political party—and, when in power, government policy—is such as to threaten gravely the institution of private business itself or at least to strike deeply at the prerogatives and earnings of all employers. In these instances, other things being equal, the whole business community will rush into opposition and establish one or more political parties of its own.

But if labor's social position is weak, if it cannot organize its own political party, what happens? Most social scientists and historians recognize that in such circumstances labor enters into coalition, appearing as one among several

18. Hibbs, "Political Parties," p. 1470.

19. For representative cross-national data on some of the large differences see ibid., and Edward Tufte, *Political Control of the Economy* (Princeton: Princeton University Press, 1978), chap. 4.

interest groups within a party or government. Most do this implicitly, in the course of narratives or analyses that record the historical facts. A few substantially improve upon this practice and try deliberately to spell out what the artless language of modern game theory often refers to as the "pay-offs" to each partner in particular political coalitions in various countries at different times.[20]

Viewed in the light of industrial structure, however, a more general logic to political coalitions involving labor becomes plain. For what is at stake in these coalitions is the exact "price" that businesses seeking to coalesce to advance their own ends must "pay" to obtain support from the workforce. If one could specify in detail which firms or industries could most easily afford this price, one would have developed a predictive model of party competition. Such a perspective might cast light on the strange character of the Democratic Party in the United States and, perhaps, some of the tamer social democratic parties in postwar Europe.

Such an assessment of abilities to "afford the price" is not beyond the reach of current interpretative capability. Two polar cases make the essential points transparent. Consider the hypothetical case of a business that employed absolutely no labor, one that relied entirely on robots. Such an enterprise would have an exceedingly remote interest in most of the issues historically disputed between business and labor.[21] Other things being equal, it could quite easily afford to support what looked to the unaided and untheoretical eye like a "labor" party, or at least practice consistent bipartisanship. By contrast, industries that rely on masses of un- or semiskilled labor, for whom national labor issues are highly salient, would enjoy far less freedom of maneuver. Unlike the fully automated firm, they could not afford higher social insurance, could not pay higher wages, could not accept a union. Where the workforce was already organized, they could not resist the pressure to attempt to undermine it. And a legislated minimum wage would usually constitute a direct threat to them. In Europe, such firms would most likely bulwark a Conservative Party; in America, they would have no alternative but to become rockribbed Republicans.

Of course, some level of class conflict always exists beyond which all industries retreat to a single business party (a case more common in Europe than in the United States). But short of that point, different industries featuring differential sensitivities to what can be termed the "labor constraint" can seize the opportunity to govern through the votes of their laborers.

20. See, for example, Kurth, "Political Consequences"; Gourevitch, "International Trade"; and David Abraham's well-researched *The Collapse of the Weimar Republic* (Princeton: Princeton University Press, 1981). The honored ancestors of this general approach include Alexander Gerschenkron, *Bread and Democracy in Germany* (Berkeley: University of California Press, 1943); Eckhart Kehr, *Battleship Building and Party Politics* (Chicago: University of Chicago Press, 1975); and Arthur Rosenberg, *Democracy and Socialism* (New York: Knopf, 1939).

21. Taxes, for example, might be one issue that would not disappear entirely.

The rule of "minimal amounts of labor" obviously needs to be modified in many cases.[22] But, as the allusion to robot-run factories suggests, in general a business that relies less on workers than it does on, for example, capital should properly be considered less "labor-sensitive" than one that does the reverse. Accordingly, industry statistics for variables like "wages as a percent of value added" provide rough quantitative estimates of an industry's ability to afford a coalition with labor and make it quite easy to order industries and firms along this dimension.

The firms *least* likely to undertake such an effort (and thus *most* likely to support the "business party") are, obviously, low-wage labor-intensive firms like those commonly found in the textile industry. Thereafter, using 1929 estimates from the Census of Manufacturers of wages as a percentage of value added, we can identify:

textiles (cotton goods)	52%
steel and iron	47
boots and shoes	44
automobiles	41
copper	38
meat packing	37
rubber (tires and inner tubes)	37
agricultural implements	36
electrical machinery	34
chemicals	23
oil (petroleum refining)	22
tobacco (chewing and smoking)	8

Then come two industries—commercial banking and investment banking—whose labor costs measured in this manner are almost irrelevant, since their costs are overwhelmingly the costs of borrowed money (paid to depositors or whomever); and, finally, real estate (local only).[23]

22. Indeed, many exceptions exist; for example, firms whose hazardous working conditions are more likely to be detected by a union (which can bear the detection costs) than by unorganized individuals (who may never realize the danger) will resist unionization far more fiercely than one might expect from the role wages play in their value added. Ability to pass through wage increases and, consequently, a firm's location in the flow of production will also affect concessions vs. opposition to labor. Nevertheless, as a first testable approximation the rule is probably the best available.

23. The (rounded) data for all but chemicals and copper come from the 1929 *Census of Manufacturers* as presented in Charles A. Bliss, *The Structure of Manufacturing Production* (New York: National Bureau of Economic Research, 1939), Appendices, especially p. 214. My "automobiles" category is a weighted average of two of Bliss's categories (parts and assembly). The chemicals figure has been calculated as per note 40, below. The copper data, for 1929, have been calculated from the 1963 *Census of Mineral Industries* (Washington, D.C.), vol. 1, 10C-10, Table 1 (the figure is for "copper ores"). The "refining and smelting" part of the industry shows up in the 1929 *Census of Manufacturers* (Washington, D.C.), vol. 2, p. 1085. The most reasonable method of weighting and combining all the data yields a corrected estimate of 36.2%; but the difference in terms of this article are meaningless. Note that all figures are

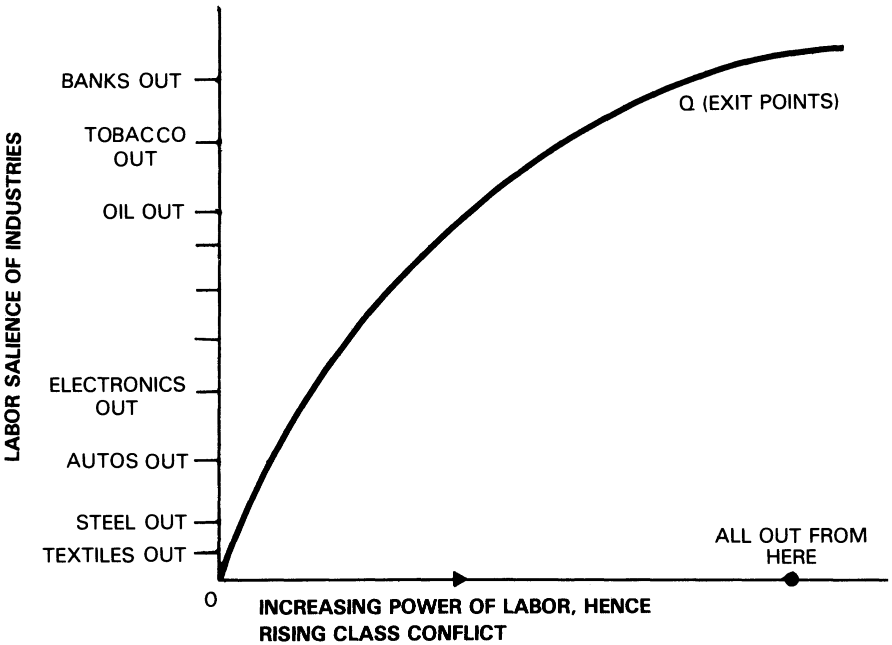

FIGURE 1. *The labor constraint: industries vary widely in their sensitivity to labor*

Combining an industry's "labor sensitivity" with the known facts of class conflict yields a simple, comparative static model of industrial structure and party competition, which can be summarized visually (see Figure 1). On the horizontal axis runs a continuous variable representing a proxy (which can be as complex as the analyst desires) for the degree of class conflict, or its equivalent, the balance of power between labor and capital actually struck in terms of public policy over some stretch of time.[24] On the vertical axis is an estimate of an industry's sensitivity to the labor constraint (as derived

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for industries; data for individual firms are not available, causing problems for estimates of individual firms (see note 40, below). Note also that the estimates for petroleum probably greatly understate the industry's capital intensity. Finally, industries are listed on the chart if at least one firm in the top 20 as listed in Table 1 below did substantial business in them in both 1929 and 1935. I have also added textiles, by far the largest industry in terms of employment during most of this period, and shoes, as a representative "old" industry also with substantial employment.

24. The assumption that vectors of class conflict indicators and public policies can be treated as scalers is not strictly necessary to this analysis. But it is in accord with both ordinary language and many social science treatments of "rising" or "falling" social strife and labor activity. Note also that while, as suggested below, this analysis scarcely adds up to a theory of the labor movement and while this article focuses on the business community, labor is not being treated as a passive element—note carefully the horizontal axis on Figure 1, which reflects changing levels of social class *conflict.*

from the above listing). In a simple model, where taxes or international issues do not induce complications, this establishes the value of a probability function Q, the "exit point" at which labor's ability to define public policy in its interest makes it useless for the industry to extend any support to the "labor" party.[25] At successively higher levels of class conflict (equivalent to a move out along the horizontal axis), more and more industries drop out of the labor party, until at length none are left and the system passes from an American "pluralist" type to a classic, highly polarized "European" party system.

Formidable problems naturally stand in the way of attempts to apply a scheme such as this to any event as complex as the New Deal. For example, empirically ascertaining which parties or policies a firm or an industry is supporting at a particular point can be very laborious.[26] It is also clear that some industries can afford to extend at least some support to both parties (though both logic and history suggest that this support will not be offered equally). But already some clearly testable propositions can be generated that have obvious relevance to the New Deal. For example, one would not expect that a relatively labor-intensive economy, dominated by textiles, steel, and shoes, would find it easy to accommodate mass movements for unionization. By contrast, if it turned out that in the decade immediately preceding the New Deal the characteristic modern American form of high-technology enterprise, the giant integrated, multinational petroleum company, ascended to the pinnacle of the American industrial structure, an important clue to the historical uniqueness of the New Deal has probably been located. Similar reasoning might explain why other countries, like Germany, seemed able to transplant the New Deal in the 1950s but not in the 1930s, or why deradicalized labor parties in Europe were often able to cooperate more closely with big business after World War II than before it.

But if characterizing parties—and, by extension, party systems—according to their labor sensitivity illuminates the politics of advanced capitalist countries, it is by itself obviously not enough. Class conflict, after all, scarcely exhausts the sources of political turbulence. Accordingly, the single-dimension, simple class-conflict model needs to be supplemented if it is to have much predictive value. In principle, the number of complicating supplementary

25. I choose this language carefully, to cover instances where a business firm supports both parties. Such instances are much less common or important than generally believed. As I argue at greater length in my "Party Realignment," no more in politics than in the stock market can *everyone* profit by buying into the same stock. No less important, most cases of apparent "bipartisanship" rest on undiscriminating evidence—usually public campaign expenditure records. In most cases, more institutionally subtle behavior signals a preference for one or the other candidate.

26. For this, obviously, archival evidence has a privileged position. See, however, my "Party Realignment" for a discussion of the whole question of "evidence." My experience with corporate records convinces me that the single most important form of business influence on American politics is not the actual transfer of money but the power major businessmen have to influence associates and cultural institutions, especially the media.

PETROLEUM (POST-RED LINE NEGOTIATIONS)	COPPER (PRE-DEPRESSION)			PETROLEUM (PRE-RED LINE NEGOTIATIONS)
				STEEL
ELECTRICAL MACHINERY	PAPER			SHOES
				RUBBER
FARM IMPLEMENTS	TOBACCO			CHEMICALS
				TEXTILES
PACKING (?)	ALL OTHER AUTO COMPANIES			COPPER (POST-DEPRESSION)
FORD				
← INCREASING INTERNATIONALISM			INCREASING NATIONALISM →	

FIGURE 2. *International competitive status of selected U.S. firms and industries in 1929 and 1935*

Notes. 1. In several cases notable intra-industry differences are not reflected here, especially in petroleum.
2. No significance to the distance between categories, only to the ordering.
Source. Based on M. Wilkins, *The Maturing of Multinational Enterprise* (Cambridge: Harvard University Press, 1974), and sources cited in note 28.

issues could be infinite, dashing all hopes for parsimonious explanation and making analyses impossibly difficult.

During most of the period that concerns me here, comparatively few issues that were not broadly labor-related were potent enough to stir major, persisting conflicts within the generally laissez-faire American political system.[27] Accordingly, while references to other dimensions are sometimes necessary for detailed discussion of particular cases and are required for an analysis of the actual transition from the System of '96 to the New Deal, the most general (or "normal") case needs but a single extra dimension—one that summarizes the competitive positions of various firms and industries within the world economy. Thus I divide firms into "internationalists," whose strong position vis-à-vis international competitors leads them to champion an open world economy with minimal government interventions that would hinder the "free" market-determined flow of goods and capital; and "nationalists," whose weakness in the face of foreign rivals drives them to embrace high tariffs, quotas, and other forms of government intervention to protect themselves (see Figure 2).[28] Combining this line of cleavage with the class-conflict

27. As with all modeling in the social sciences, of course, more dimensions become necessary the finer the context. "Broadly" labor-related issues include most "social welfare" policies.

28. On these definitions, note 1) the "free" market may well be an oligopoly maintained by a few firms; 2) "internationalists" often have to live in a world full of nationalists and accordingly modify their behavior; 3) occasionally "nationalism" and "protectionism" are not equivalents; 4) occasionally "internationalism" could helpfully be broken down into several dimensions;

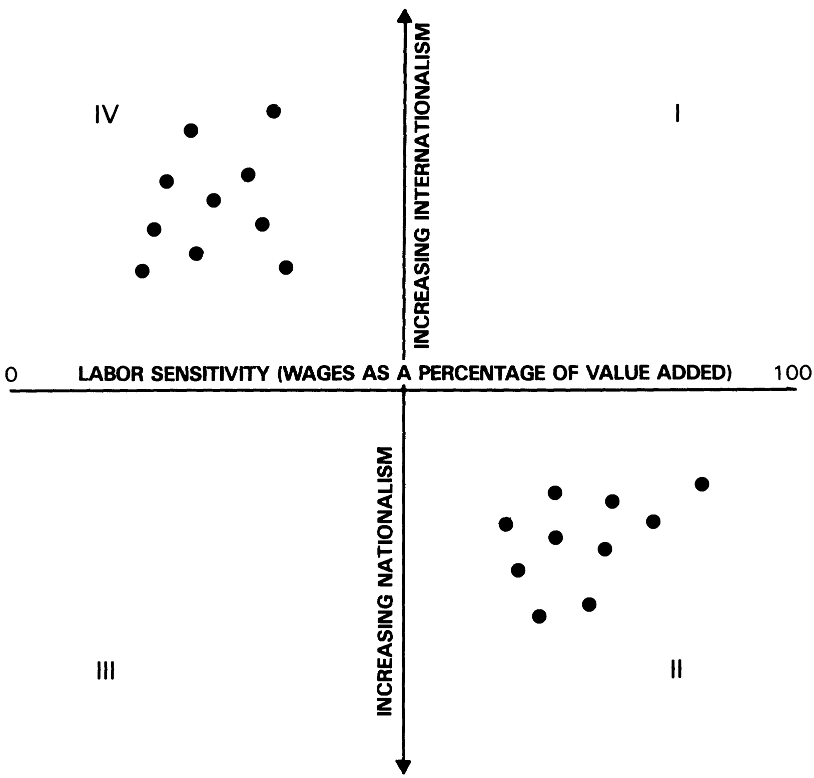

FIGURE 3. *Industrial structure and party competition: a stylized two-party case*

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5) "internationalism" is usually a matter of degree—any number of firms oriented toward international competition in an open world economy have been happy to welcome government aid where that would not upset a larger equilibrium.

To use this dimension for a real economy requires some impression of the positions of the various industries and firms. I use an independent source: with one exception noted below, subsequent scattergraphs rely largely on summaries of the changing world economic positions of major American businesses presented by Mira Wilkins in her *The Maturing of Multinational Enterprise* (Cambridge: Harvard University Press, 1974). Based on a judgment about which policies objectively advanced the interests of firms as Wilkins depicts them (where "interest" is equated with profitability), I have placed firms and industries into one of five arbitrarily defined, ordinally ranked spaces along the nationalist-internationalist dimension. Some argument about particular cases is to be expected, especially with General Motors in the '20s, where most analysts have underestimated the pressures from GM's major owner, DuPont, to limit its overseas commitments and the importance of the so-called "rubber war." However, nothing of importance here is sensitive to this imprecision; indeed, the ordinal scale is of some advantage. On the copper industry I follow James Ridgeway, *Who Owns the Earth?* (New York: Macmillan, 1980), p. 106.

dimension yields an analysis in which each firm or industry as a whole can be located at two coordinates: one summarizes the characteristics of its production process with respect to the workforce; the other, its situation in the world economy.

A party system as a whole can now be characterized in these terms. If most elements of the industrial structure cluster tightly together in one or another "quadrant" of Figure 3, political conflict within the system is likely to be muted.[29] Assuming that the workforce can be contained, the conditions are satisfied for the stable hegemony of a particular "historical bloc." In sharp contrast, should class conflict and the world economy combine to scatter large firms and major industries among all the quadrants, the party system would be incoherent. Similarly, Figure 3's sharp division between two diagonally opposed quadrants yields a rather stable, fairly well-balanced, two-party system in which the less labor-intensive bloc, by allying with labor, might well achieve hegemony.

From the statics of party competition to the dynamics of party systems

The account of partisan choice and party systems presented here is static in the sense that it applies to actions and events at a single moment in time. Yet as the earlier allusion to the rise of the major oil companies during the Roaring Twenties suggests, the static theory can be extended to cover dynamic issues. It thereby renders possible a fresh explanation of the oft-debated and still not entirely resolved puzzles surrounding the timing and sequence of the major New Deal policy initiatives.

Perhaps the most convenient way to begin is to refer again to Figure 3. Instead of the diagonally opposing clusters of firms it shows, however, imagine the figure's space as representing the American political system around 1900. In that case, nearly all the dots will cluster tightly in Quadrant II, indicating the power bloc defined by the almost monolithically Republican business community of that period, whose component firms were nearly all strongly protectionist and labor-intensive.[30]

29. Because only one of these axes has a true metric the definition of a "quadrant" is arbitrary: what is at issue is proximity in the defined spaces. Here, however, it is convenient to speak of "quadrants."

30. See the discussion in my "Party Realignment," which also contains a longer and more general statement of the "scattergraph" approach to the analysis of American party systems applied in the present article, a detailed justification for concentrating on big business in the analysis of political change, and some qualifications—unimportant in this article but of considerable significance in general—on the treatment of the financial sector in such graphs.

A word should probably be added about how agriculture figures into the analysis presented here. While reasons of space make it impossible to justify the claim, the politics of farm policy in the New Deal has received more attention than it deserves; while agriculture constituted an important part of Roosevelt's coalition, most of what defined the New Deal derived from other constituencies. Furthermore, agriculture, like industry, is marked by both class and sectoral conflicts, and its political behavior can be analyzed on lines analogous to those for industry. See, for example, R. H. Bates and W. P. Rogerson, "Agriculture in Development: A Coalitional Analysis," *Public Choice* 35, 5 (1980), pp. 513–27.

If the figure were drawn a quarter-century later it would exhibit substantial differences. In the interval, major cumulative changes in industrial structure have occurred. World War I and the boom of the 1920s have spurred the mechanization of production. Large, science-based corporations have become far more prominent. The war has also transformed the United States from a net debtor to a net creditor in the world economy. Textiles have withered away in the Northeast, meat packing and steel have declined relative to oil, and so forth. Virtually all these developments affect the distribution of firms in regard to labor and trade policy, and thus, to some degree, transform the party system. In terms of the graphical analysis many dots have begun to migrate. New ones—representing firms in developing industries—have suddenly appeared in new places while some old dots, marking marginal firms in dying industries, have disappeared.

In the United States after World War I, the analysis implies, a new bloc of big, capital-intensive firms that increasingly dominate the world market for their products is beginning to grow in Quadrant IV, diagonally opposite the old System of '96 bloc. It is obvious that such a party system is headed for trouble, with or without a major depression. As firms increasingly move into the other quadrant, the old bloc will clearly come under strain. As it disintegrates and the new bloc, which will dominate the next party system, is born, policy fights and transactions costs associated with public policy making will rise. Political stalemates are likely to increase and the sense of a vacuum forming will probably spread, as traditional political alliances evaporate and surprising new ones emerge.

The exact form the transition from one party system to another will take, however, depends critically on the level of national income. National income is important for two different reasons. First, over time it exercises what might be termed "direct effects" on the location of business firms on the two "primary" dimensions of labor and international economic policy. Second, and much less obviously, major fluctuations in the trend of national income roil the transition to a new party system by temporarily forcing certain characteristic kinds of new issues to the fore, issues that supplement or even momentarily replace labor and international economic policy as pivots for the system.[31] The nature of these "secondary" tensions ("secondary" in contrast to the "primary" issues of labor and trade, not in the sense of having lesser importance) is perhaps best spelled out by tracing how they combine with the "direct effects" of changes in national income to define two distinct, idealized models of the transition path from one party system to another.

Transition via prolonged boom. In the first transition path, national income sustains a high rate of growth for a substantial period of time. The prolonged

31. Complicating issues do not, of course, only appear during transition to a new party system; I simply claim that additional issues sometimes complicate such transitions.

boom consequently exerts powerful "direct effects" on the party system's primary defining axes of labor and trade by rapidly transforming productive techniques and the operation of firms. In the boom of the 1920s, for example, some firms and sectors experienced high rates of technical change and mechanization, and consequently changed their position on labor policy. With the major exception of the chemical industry, which still lagged behind the Germans, they commonly changed position on international economic policy as well. New leading sectors also appeared, of course, while some older industries slowly disappeared.

If growth were sustained, successive scattergraphs of the party system would show a continuous, gradual migration of more and more firms or sectors from one quadrant to the other, as the new bloc gained strength and the older one declined. Parallel to these shifts, political histories would probably chronicle a widening sense of dislocation, followed by increasingly intense polarization and, at last, the emergence of a distinctly new ruling bloc. But for all the conflict such an account might record, moments of high drama would be few and far between. As a whole the process would be protracted and, in principle, straightforward. Marked by an absence of complicating issues and identifiable turning points, this sort of change would by itself pose comparatively few puzzles for political analysis.

Even a transition of this kind, however, would probably be complicated by at least two sorts of "secondary" tensions generated by the process of growth itself. A sustained boom, for example, is highly likely to bring about the rise of new firms and sectors. If older business elites do not succeed in entering these fast-growing sectors, whole new groups of entrepreneurs will emerge. While most major battles between what are commonly advertised as "new" and "old" elites turn out to involve clashes between different sectors on primary issues of labor and trade policy (and thus call for no special interpretative apparatus), the rise of new entrepreneurs can in itself generate a certain degree of tension. Or, as has often happened in American history, a major boom scrambles existing financial markets. As financial innovations proliferate to meet historically unprecedented demands for finance from whole new regions, sectors, and firms, competition heats up. Older market shares become unbalanced, and pressures build for regulatory change. While such "secondary" cleavages normally lack the permanence of the "primary" conflicts (since, after all, new elites eventually mature, and large-scale uncertainty resulting from long-term developmental pressure in the financial system typically results in "landmark" legislation that resolves whole ranges of issues), such conflicts confuse the transition to a new party system.

Transition via economic depression. The most dramatic complications of the transition from one party system to another, however, arise from the simple fact that the history of the American political economy is far from a chronicle of continuous growth and progress. Along with the booms and growth spurts that help build and destroy political coalitions come cyclical instability and, often, deep and protracted depressions. These catastrophic events define the second transition path.

The statistical record of depressions and party realignments demonstrates that even a very steep downturn will not by itself suffice to wreck an entrenched party system.[32] But if, as in 1837, 1857, 1893–94, and the 1930s, the party system is already decaying because of a previous boom, then a shattering depression is likely to generate a variety of new pressures that will further complicate the transition to a new party system.

Several distinct sorts of pressure are likely to emerge. First of all, the "direct effects" of deep depressions are frequently very dramatic. While a depression, unless it persists for many years, will not greatly affect the labor intensity of an economy's production processes (though, of course, speedups and spreading anxieties about unemployment can deeply color work relations, particularly in labor-intensive sectors), it will certainly produce abrupt changes in different firms' preferred international economic policies. When an American depression coincides with a world economic collapse, for example, many American industrialists are drastically affected by the strategies their foreign competitors adopt. If the volume of world trade shrinks, and export drives proliferate as domestic demand collapses, economic nationalism is certain to grow within the business community. If the depression persists, even many previously successful "internationalists" will be forced to change colors. In terms of the scattergraphs of the System of '96, this implies a swift and substantial reshuffling of positions along the Nationalist-Internationalist axis—in a direction that in the short run dramatically reverses long-term trends working in favor of an open economy.

The collapse of political blocs favoring internationalism is, however, only one (direct) effect of prolonged drops in the level of national income. Such periods also typically lead to a whole series of uniquely "pathological" (in the sense of non-normal and transitory) secondary tensions. Sustained economic decline, for example, normally intensifies economic rivalries, leading to waves of bankruptcies and defensive mergers. Appearing on the scattergraphs as abrupt disappearances and sudden relocations of dots, these, if sufficiently numerous, can redraw the shape of the whole party system almost overnight. Even if no general merger wave occurs, the positions of the largest firms in the system often change dramatically as the strongest surviving business groups attempt to capitalize on their positions and take control of other, momentarily undervalued, assets.

A prolonged depression is also likely to trigger two further sorts of "sec-

32. See the discussion in my "Elites and Elections." Severe but brief downturns, like that in 1920–21, do not last long enough to generate the processes described below in other than feeble, symptomatic form.

ondary" conflicts (or, perhaps more precisely, sets of secondary conflicts), which, when they suddenly burst forth, are likely to mystify observers used to thinking in terms of categories derived from the preceding boom.

The first of these additional tensions can be readily identified: it is a dramatic rise in the importance of the money supply as a political issue. Whereas during most boom periods money is fairly readily available at a reasonable real cost—and thus as a political issue is unlikely for most businesses to bulk as large as labor and international economic policy—persisting economic declines will eventually generate powerful movements for lower interest rates and an increase in the money supply. This process, of course, takes time to start. In the early stages of a depression, for example, most firms react by cutting production, laying off workers, and, in the less oligopolistic parts of the economy, cutting prices. But while firms may briefly welcome reductions in the level of economic activity—because they cool off demands for wage increases and make the labor force more tractable—no one is likely to remain enthusiastic if the downturn persists and cuts deeply into profits. Nevertheless, for a while the bulk of the business community, or at least those in it not facing immediate bankruptcy, put up with the deflationary adjustment process, since generations of academic economists have persuaded most of them that deflation is the path to revitalization.

In all modern economies, however, it has eventually become clear that deflation does not always restore the conditions for profitable accumulation at a price most of the business community can afford. As this lesson dawns, and losses mount even among the rich, firms and sectors begin to divide over measures for reflation—either an increase in the money supply, which, of course, carries with it the prospect of abandoning the gold standard or other international mechanisms regulating the volume of money in circulation; or higher government expenditures, which almost irresistibly expand the money supply as the government deficit is financed; or both. On one (deflationary) side are firms that want above all to preserve the value of financial assets, to retain foreign deposits (which they will lose as the currency devaluation consequent upon the abandonment of gold takes hold), and, perhaps, to protect what they believe to be the long-run best interests of the international financial system. Chief among the proponents of deflation are big international banks, insurance companies, and bond holders. Opposed to them is nearly everyone else for whom the overriding priorities increasingly become the maintenance of any degree of purchasing power, escape from increasingly heavy fixed charges, devaluation to shore up fading international competitiveness, or some combination thereof. This latter camp includes many prominent industrialists and retailers, as well as farmers and ordinary people.

While many accounts of deflationary periods stress the misery they have brought to farmers, an industrial sector analysis of this transition's pathology highlights the role of certain types of industries, namely those with large amounts of fixed capital. Because their capital is fixed, these firms take enormous losses as the depression persists and they have to run far below capacity for long periods. Many will have borrowed heavily in the preceding boom to finance expansion and thus feel pressure from financiers; but even where debt service is light, the opportunity costs of underutilized fixed capital still remain enormous. Firms enjoying very strong oligopolistic positions may be able to cope by keeping prices up; many others that are heavily dependent on bank financing may not dare to protest the deflation. These two exceptions notwithstanding, the logic of the demand for reflation yields an unambiguous prediction of which industries will lead the "emergency reflation" coalition "for national economic recovery": giant, capital-intensive industries whose prices are breaking and that are relatively independent of banks (large oil companies in the Depression, for example).

Once the forces of national recovery begin to march (and since by that moment most of them have become ardent economic nationalists and many are also labor-intensive, they do indeed march), a final kind of secondary conflict is likely to break out within the financial sector.

It is, of course, quite possible—and it certainly was the case in the 1930s—that segments of the banking community may already be at one another's throats for various "secondary" reasons mentioned earlier: because rising entrepreneurs challenge older elites who happen to be bankers; because of competitive pressures derived from secular changes in the financial structure, changes that the previous boom brought about; or because powerful financial groups come into conflict as they try to aggrandize their own relatively strong positions as everyone else's asset values are collapsing.

As economic disaster continues unabated and pressures mount for "national recovery," however, fragmentation within the financial community is for several reasons likely to increase enormously. First, the spiraling collapse of the international economy increasingly calls into question older political alliances premised on a growing national income (and volume of trade). At length even some financiers will begin to break ranks. Obviously, defectors are most likely to come first and in the greatest numbers from among investment bankers with the smallest stakes (though their stakes may still be substantial by comparison with other sectors') in the business of international banking and commercial bankers with the strongest ties to those parts of domestic industry which are up in arms over reflation—for example, the oil industry. Once this fragmentation gets under way it is likely to pick up momentum as it becomes enmeshed in debates over financial reform stimulated either by the previous boom or by the increasingly urgent monetary debates of the economic crisis.[33]

Together with the direct effects of falling national income, these accu-

33. Because of this "cumulative" role played by past financial and other secondary cleavages, the actual sequence of historical events makes a real difference even in the model.

mulating secondary tensions will immensely complicate the conflicts over labor and trade generated by the preceding boom. What during the period of prosperity (the first transition path) had seemed so clear—the rapid growth of a powerful bloc of internationally oriented, capital-intensive firms with their own distinct interests in more liberal trade and labor policies—now appears hopelessly confused. The development of the internationalist bloc first slows, then ceases altogether. As income continues to fall, history almost appears to be running backward. Economic nationalism spreads like wildfire. As older alliances premised on a growing international economy break down, "secondary" tensions and pathologies characteristic of depressions get full play and further scramble previous alignments. At length, even big banks begin openly to attack one another and investment banking is riven by dissent. A "national recovery" coalition comes to power as the internationalists scatter.

In the short run, the strange new package of public policies that hold this coalition together appears only tangentially related to the primary tensions that had dominated the system for so many years. For, given a sufficiently deep contraction of the international economy, this transition coalition inevitably takes a strongly nationalist form, thus flying in the face of previously dominant trends that favored increasing international integration. But this impression is an illusion; it derives entirely from the special circumstances of the colossal decline in national income. As soon as recovery starts and other transition issues (such as monetary and banking reform) begin to be resolved, the old lines of cleavage over primary issues reappear. The "national recovery" coalition blows apart over labor and foreign economic policy, and the long-run trends evident in the preceding boom reassert themselves.

In the latter part of this article I trace how a distinct "Multinational Bloc" first emerged in the United States after World War I. Gaining coherence during the boom of the 1920s, it virtually fell apart in the early 1930s, until national income began very slowly to rise again, during FDR's second New Deal. It was only then that a fresh party system, crowned by a new historical bloc, could emerge.

2. High cards in the New Deal

I begin with a brief analysis of the System of '96 as it looked in its pre-World War I "stable phase."[34] After identifying the institutional basis of the period's well-known Republican hegemony in the relative unity of most industry and major finance, I turn to the System's crisis at the end of World War I. By tracing how the dislocated world economy combined with existing

34. This expression refers to a party system before decay. See, for example, Paul Kleppner, "Critical Realignments and Electoral Systems," in Kleppner et al., *Evolution*, pp. 1–33.

social tensions to divide a business community that until then had been solidly Republican, it becomes clear how the older hegemonic bloc of the System of '96 began breaking into two—one part intensely nationalist, protectionist, and (with a few notable exceptions) generally labor-intensive; the other oriented to capital-intensive production processes and free trade.

A newer "Multinational Bloc" rose to power during the New Deal. In accord with my earlier discussion of variations in national income and the two distinct paths of transitions between party systems, I distinguish three stages in the new bloc's ascent. The first includes the period immediately following World War I and the great boom of the 1920s. In this interval of generally rising national income (the first transition path), the leading firms of the emergent multinational bloc began to articulate their interests on labor and trade separately from the rest of the business community. Along with several secondary cleavages that the boom generated and a feature peculiar to American society in the 1920s (Prohibition, discussed below), the efforts this bloc made to alter American policy toward labor and the rest of the world created considerable turbulence in American politics. By the 1928 election, the accumulating tensions had "dealigned" the existing structure of U.S. politics.

The second stage of the new bloc's rise to power occurs after the Great Crash of 1929 and major events associated with it, including the East Texas oil field discoveries and the British abandonment of the gold standard. In this interval, the political coalition that had dominated the United States for a generation collapsed completely, setting off a scramble for power. However, as I will show, the wreck of the System of '96 amid frightful deflation (the second transition path) did not immediately bring the multinational bloc to power. Instead, with the collapse of the international economy, Hoover's determination to remain on the gold standard at all costs sharply divided the business community, including the multinational bloc.

Out of these tensions, by sequential stages, came the American political world we now know: first, a gradual massing of nationalist and inflationist business groups (and farmers); second, the rapid emergence of increasingly bitter divisions within the financial community as heretofore "secondary" disputes over the control and future shape of the financial system escalated, and older alliances based on a growing economy lost their *raison d'être*; third, the temporary coalescence during the First New Deal of the nationalists and inflationists with a famous group of financiers who sought to challenge the preeminence of the House of Morgan; and, finally, as soon as decline was arrested and the long-run logic of the first transition path could assert itself, a slowly improving economy began spawning epic class and trade conflicts, leading to the triumphant reemergence of the multinational bloc during the Second New Deal.

A boom and a bloc: the first transition path, 1918–29

At the center of the Republican Party under the System of '96 was a massive bloc of major industries, including steel, textiles, coal, and, less monolithically, shoes, whose labor-intensive production processes automatically made them deadly enemies of labor and paladins of laissez-faire social policy.[35] While a few firms whose products dominated world markets, such as machinery, agitated for modest trade liberalization (aided occasionally by other industries seeking specific export advantages through trade treaties with particular countries), insistent pressures from foreign competitors led most to the ardent promotion of high tariffs.[36]

Integral to this "National Capitalist" bloc for most of the period were investment and commercial bankers. These had abandoned the Democrats in the 1890s when "Free Silver" and populist advocates briefly captured the party. The financiers' massive investments in the mid 1890s and after, in huge trusts that combined many smaller firms, gave them a large, often controlling, stake in American industry, brought them much closer to the industrialists (especially on tariffs, which Gold Democrats had abominated), and laid the foundation for a far more durable attachment to the GOP.[37] Most financiers also shared the industrialists' enthusiasm for aggressive foreign policies directed at the other great powers, especially in Latin America, though they were sometimes less willing to challenge the British, whose capital (in many senses) remained the center of world finance.

World War I disrupted these cozy relations between American industry and finance. Overnight the United States went from a net debtor to a net creditor in the world economy, while the tremendous economic expansion induced by the war destabilized both the U.S. and the world economy.[38] Briefly advantaged by the burgeoning demand for labor, American workers struck in record numbers and for a short interval appeared likely to unionize extensively.[39] Not surprisingly, as soon as the war ended a deep crisis gripped American society. In the face of mounting strikes, the question of U.S. adherence to the League of Nations, and a wave of racial, religious, and ethnic conflicts, the American business community sharply divided.

35. See my "Party Realignment," section 4. The shoe industry was singular because in contrast to most other charter members of the Republican bloc, its firms directly confronted a giant trust, United Shoe Machinery. As a consequence, they were far more likely to harbor doubts about the wisdom of "big business" and often went over to conservative Democrats.

36. This discussion neglects a modest movement for very limited trade liberalization promoted by several sectors in the pre-1914 period.

37. For the merger movement of the 1890s, see my discussion in "Party Realignment." Railroad mergers, organized by leading financiers, were also a part of the consolidation of this bloc.

38. For World War I's major financial consequences for the U.S. economy, see Charles Kindleberger, "United States Foreign Economic Policy 1776–1976," *Foreign Affairs*, January 1977, pp. 395–417.

39. For the period's labor turmoil, see Jeremy Brecher, *Strike!* (Boston: South End Press, 1977), chap. 4.

On the central questions of labor and foreign economic policy, most firms in the Republican bloc were driven by the logic of the postwar economy to intensify their commitment to the formula of 1896. The worldwide expansion of industrial capacity the war had induced left them face to face with vigorous foreign competitors. Consequently, they became even more ardent economic nationalists. Meeting British, French, and later German and other foreign competitors everywhere, even in the U.S. home market, they wanted ever higher tariffs and further indirect government assistance for their export drives. Their relatively labor-intensive production processes also required the violent suppression of the great strike wave that capped the boom of 1919–20 and encouraged them to press the "Open Shop" drive that left organized labor reeling for the rest of the decade.

However, this response was not universal in the business community. The new political economy of the postwar world pressured a relative handful of the largest and most powerful firms in the opposite direction. The capital-intensive firms that had grown disproportionately during the war were under far less pressure from their labor force. The biggest of them had by the end of the war also developed into not only American but world leaders in their product lines. Accordingly, while none of them were pro-union they preferred to conciliate rather than to repress their workforce. Those that were world leaders favored lower tariffs, both to stimulate world commerce and to open up other countries to them. They also supported American assistance to rebuild Europe, which for many of them, such as Standard Oil of New Jersey and General Electric, represented an important market.

Joining these latter industrial interests were the international banks. Probably nothing that occurred in the United States between 1896 and the Depression was so fundamentally destructive to the System of '96 as the World War I–induced transformation of the United States from a net debtor to a net creditor in the world economy. The overhang of both public and private debts that the war left in its wake struck directly at the accommodation of industry and finance that defined the Republican Party. To revive economically and to pay off the debts, European countries had to run export surpluses. They needed to sell around the world, and they, or at least someone they traded with in a multilateral trading system, urgently needed to earn dollars by selling into the United States. Along with private or governmental assistance from the United States to help make up war losses, accordingly, the Europeans required a portal through the tariff walls that shielded Republican manufacturers from international competition. (Following the procedures described earlier, Figure 4 estimates as closely as possible the shape of both blocs. They are defined—somewhat arbitrarily—to include the top thirty firms [ranked according to assets], the big banks, and cotton textiles, by far the largest American industry characterized by small firms.)[40]

40. For rankings along the "internationalism" dimension see above, note 28. Because data

The conflict between these two groups runs through all the major foreign policy disputes of the 1920s: the League of Nations, the World Court, the great battles over tariffs, and the Dawes and Young plans. Initially, the older, protectionist forces won far more than they lost. They defeated the League, kept the United States out of the World Court, and raised the tariff to ionospheric levels. But most trends in the world economy were against them. Throughout the 1920s the ranks of the largely Eastern internationalist bloc swelled.[41]

Parallel to the multinational bloc's increasing numbers was its growing unity of interest. In 1922, the British opened negotiations to admit Standard Oil interests into Iraq. A milestone in the integration of the world economy, this step and related developments also removed a major obstacle to concrete forms of cooperation among the internationalists.[42] Indeed, it had been a split between big oil and big banks over the specific terms of the peace treaty

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for wages as a percentage of value added are available only for industries as a whole, I have assigned specific large *firms* the value of the industry mean, thus eliminating intra-industry differences. While these may sometimes be significant, they are miniscule by comparison to the variations across industries. I have assigned the firms to particular three-digit industries by comparing their main lines of business with "Manufacturing Industries with Large Scale Operations, 1929," (Bliss, *Manufacturing Production*, p. 214); and, where possible, checking my industry code assignments against those in the Harvard Business School Project data presented in the Chandler papers "Global Enterprise" and "The M Form." In this period only the calculations for General Electric, which moved in the 1920s into consumer durables along with its older lines of business in electrical machinery, raised questions about the need to weight two very different Standard Industrial Classification three-digit codes to get one number for the whole. Because the size of the consumer durables segment of GE's business (with its relatively low wages as a percentage of value added) seemed too small to affect the overall firm average, I did not refine the data for "electrical machinery." However, Westinghouse, which had not yet moved into consumer durables in this period, always seems to lag slightly behind GE's political efforts in the New Deal, in a direction one would predict from knowing the firms' labor sensitivities. (The two firms also differed sharply in the degree of overseas involvement.)

In the case of chemicals, I used a slightly different procedure. As Walt Rostow, *The World Economy* (Austin: University of Texas Press, 1978), p. 278, observes, the industry is markedly heterogeneous. Accordingly, in preparing Figure 4's estimate of "wages as a percentage of value added" for DuPont, I used the Chandler data's list of the three-digit codes relevant for the firm in 1930. The codes were matched as closely as possible with particular branches of the industry for which statistics were available. On the basis of the 1931 Commerce Department *Biennial Census of Manufacturers*, pp. 564–83, "wages as a percentage of value added" was estimated for each three-digit industry in which DuPont operated. (In some cases categories had to be combined, using various weighted averages.) Since no better weights were available, an average was taken of wages as a percent of value added for all these three-digit figures and is used in Figure 4. Because a large paper company placed among the top 30 industrials only in 1935, there should strictly speaking be no entry for the sector. I have added it because of my later discussion of the role played by the Mead Corp. in the Second New Deal. Note, finally, that many older industries dominated by small firms, such as shoes, would show up in the same area as textiles and steel if they were plotted.

41. Further footnotes are devoted to primary references or important amplifying facts, which will necessarily be stated in summary form.

42. These long-running negotiations culminated in the Achnacarry Accord of 1928, which cartelized the world oil market outside the United States. It scarcely exaggerates to say that the problem of oil policy during the New Deal was to find a viable domestic complement to this international cartel.

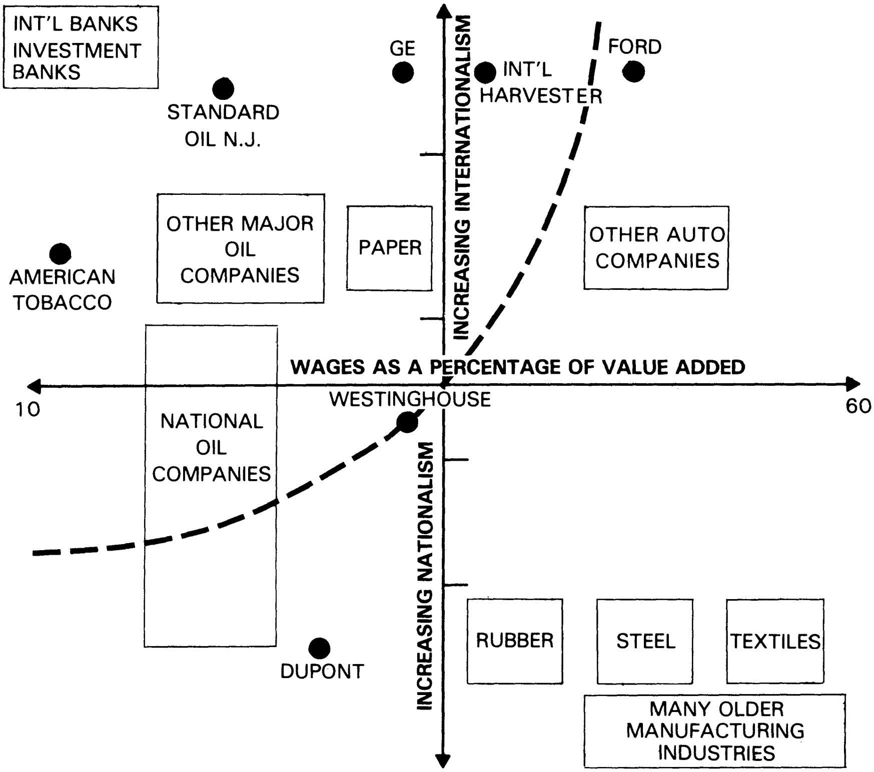

FIGURE 4. *The New Deal coalition, ca. 1929 and 1935*

Notes. 1. Vertical axis is ordinal, as in Figure 2.
2. Companies and industries located left and above the dashed line were far more likely to favor the New Deal. The line thus encloses the leaders of the capital-intensive-free trade bloc in the 1920s and 1930s.
3. Between the late 1920s and the mid 1930s the copper industry changed position. In the 1920s it belongs near "other auto companies"; in the 1930s, near "steel." See note 28.

that was pivotal in defeating the League of Nations. The original American champions of the League, as Henry Cabot Lodge's correspondence reveals that he was vividly aware, were international financiers located mostly in port cities; free-trading merchants like Edward A. and Lincoln Filene; and the relative handful of American industrialists who favored either low tariffs (e.g., Phelps Dodge's Cleveland Dodge, a major supporter and close friend of Woodrow Wilson) or direct foreign investment. By contrast, the League terrified most American manufacturers who feared, as the American Tariff League expressed it, that "the League of Nations is simply a rally ground for free traders and all who are opposed to the doctrine of 'adequate protection' for the industries and labor of the United States."[43]

43. For Lodge's views on the League and international finance see his extensive correspondence for 1919 and 1920, now in the Henry Cabot Lodge Papers, Massachusetts Historical Society

Led by groups like the American Tariff League, the Boston Home Market Club (a long-time political base of Massachusetts Senator Henry Cabot Lodge, "the Senator from Textiles"), and the League for the Preservation of American Independence—dominated by upstate New York industrialist Stuyvesant Fish and Louis A. Coolidge, a close friend of Lodge's and treasurer of the giant Boston-based United Shoe Machinery (which was probably seeking to protect its clientele among U.S. shoe producers)—these "Irreconcilables" launched a powerful counterattack.[44] Their success came only because of a fatal split among the internationalists. At the climax of the struggle over the League, the Standard Oil companies, which had already come out for tariff reform, were locked in a bitter struggle with the British over control of Middle Eastern and Latin American oil reserves. Because of the advantages the League was thought to afford British interests, Rockefeller, Standard Oil policy advisor and Rockefeller family associate Charles Evans Hughes, and other dedicated internationalists allied with petroleum producers were able to endorse the League only "with reservations."[45] Their opposition, added to that of Lodge's "Irreconcilables" and many other protectionist spokesmen, helped doom Wilson's original plan. Harding's subsequent plan to resubmit a compromise measure, endorsed in principle by all the internationalists, was shelved after it was bitterly attacked by the nationalists; and after the multinational bloc discovered it could achieve its immediate foreign-policy objectives by working unofficially around the Congress with key executive-branch functionaries and New York Federal Reserve Bank officials.[46]

Along with its increasing internal homogeneity, the multinational bloc

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Library, Boston. The most complete collection of papers of the League's supporters are in the files of Harvard President A. Lawrence Lowell, now in the Pusey Library, Harvard University. The American Tariff League's denunciation of the League (one of many) is from its *American Economist*, 21 March 1919, p. 190. I am grateful to John W. Coolidge Jr. for permission to examine additional correspondence of Louis A. Coolidge (beyond that in the Lodge Papers) in his family's files; and to Carl Kaysen of M.I.T. for comments on United Shoe's interest in the U.S. market.

44. The literature on the League debate is extensive but short on specific details of exactly who supported what compromises. A few later analysts have questioned whether Lodge should be numbered among the "Irreconcilables," though everyone concedes his pivotal role in the final outcome. Correspondence from all sides persuades me that Lodge was, indeed, irreconcilably opposed to the League and intended to destroy it all along.

45. Hughes's intimate connections to Standard and the Rockefellers have been extensively overlooked, and actually denied by several biographers. Files of the Standard Oil Company of New Jersey, now in storage at Tulane University Library, New Orleans, La., list him as the corporation's chief foreign policy advisor; in 1917–20, Hughes served as an attorney for both Standard of New Jersey and the American Petroleum Institute, and was a trustee of the Rockefeller Foundation. He was also active in the newly organized (and liberal) Northern Baptist Church, whose interlocking ties to the Rockefeller complex were very close. Carl Parrini's *Heir to Empire* (Pittsburgh: University of Pittsburgh Press, 1973) gives a excellent summary of the clash between Standard and the British, and the role of the League in this context. See especially pp. 58 and 138ff.

46. As often emphasized, a stronger executive was fundamental to the New Deal.

enjoyed several other long-run advantages, which helped enormously in overcoming the new bloc's relative numerical insignificance vis-à-vis its older rival. The multinational bloc included many of the largest, most rapidly growing corporations in the economy. Recognized industry leaders with the most sophisticated managements, they embodied the norms of professionalism and scientific advance that in this period fired the imagination of large parts of American society.[47] The largest of them also dominated major American foundations, which were coming to exercise major influence not only on the climate of opinion but on the specific content of American public policy.[48] And, while I cannot pause to justify the claims in this article, what might be termed the "multinational liberalism" of the internationalists was also aided significantly by the spread of liberal Protestantism; by a newspaper stratification that brought *the* free-trade organ of international finance, the *New York Times*, to the top; by the growth of capital-intensive network radio in the dominant Eastern, internationally oriented environment; and by the rise of major news magazines. These last promised, as Raymond Moley himself intoned while taking over at what became *Newsweek*, to provide "Averell [Harriman] and Vincent [Astor] . . . with a means for influencing public opinion generally outside of both parties."[49]

Closely paralleling the business community's differences over foreign policy was its split over labor policy. Analysts have correctly stressed that the 1920s were a period of violent hostility toward labor unions. But they have largely failed to notice the significant, sectorally specific modulation in the tactics and strategy employed by American business to deal with the labor movement.

The war-induced boom of 1918–19 cleared labor markets and led to a brief but sharp rise in strikes and the power of labor. A White House conference called by Wilson to discuss the situation ended in stalemate. John D. Rockefeller Jr. and representatives of General Electric urged conciliatory programs of "employee representation" (company-dominated, plant-specific works councils). Steel and other relatively labor-intensive industries, however,

47. The division between the old and new blocs in the business community, however, is certainly not equivalent to one between traditional and modern management or between firms with and without formal personnel programs. The multidivisional management structures described by Alfred Chandler and other analysts were slowly diffusing through both blocs. Most of the more advanced firms, however—DuPont is the most notable exception—were multinationally oriented.

48. A summary of the overwhelming Eastern bias in the control of U.S. foundations in this period, as well as their growing expenditures for studies of foreign affairs, is Eduard C. Lindeman's long-ignored *Wealth and Culture* (New York: Harcourt, 1936), especially pp. 44ff. For the interaction of big business and the professions, see among others David Noble, *America by Design* (New York: Knopf, 1975).

49. For the *New York Times*, see below; the Moley quotation is from a 13 June 1936 entry in his Journal, now in the Moley Papers, Hoover Institution, Stanford, Calif. Astor and Harriman were the most important of the magazine's owners. Moley later moved much further to the right.

rejected the approach. Led by Elbert Gary, head of U.S. Steel, they joined forces, crushed the great steel strike of 1919, and organized the American-plan drives of the 1920s.[50]

Rockefeller and Gary broke personal relations. Rockefeller supported an attack on the steel companies by the Inter-Church World Movement, an organization of liberal Protestants for which he raised funds and served as a director. Later he organized a consulting firm, Industrial Relations Counsellors, to promote nonconfrontational "scientific" approaches to labor conflict. For a while the firm operated out of his attorney's office, but eventually it acquired space of its own. It continued to receive grants from the Rockefeller Foundation and to involve Rockefeller personally.[51]

Industrial Relations Counsellors assisted an unheralded group of capital-intensive firms and banks throughout the 1920s—a group whose key members included top management figures of General Electric, Standard Oil of New Jersey, and partners of the House of Morgan. Calling themselves the "Special Conference Committee," this group promoted various programs of advanced industrial relations.[52]

Industrial Relations Counsellors worked with the leading figures of at least one group of medium-sized firms. Perhaps ironically, they were organized in the Taylor Society, once the home of Frederick Taylor's well-known project for reorganizing the labor process. Two types of firms comprised this group: technically advanced enterprises in highly cyclical (hence, in the 1930s, highly depressed) industries like machine tools, and medium-sized "best practice" firms in declining sectors. Mostly located in the Northeast, these latter firms hoped that the introduction of the latest management and labor relations techniques would afford them cost advantages over burgeoning low-wage competitors in the American South. A sort of flying buttress to the core of the multinational bloc, most of these firms strongly favored freer trade, while several future New Dealers, including Rexford Tugwell and Felix Frankfurter, worked with them.[53]

50. Cf. Brecher, *Strike*, chap. 4, among other sources.

51. The sources for this and the following paragraphs are mostly papers scattered through several archives, including the Rockefeller Archive Center at Tarrytown, N.Y. For the dominance of Standard Oil and General Electric within the group, cf. J. J. Raskob to Lammot DuPont, 26 November 1929, Raskob Papers, Eleutherian Mills-Hagley Foundation, Wilmington, Del.

52. Industrial Relations Counsellors seem to have coordinated the meetings of the group for most of the 1920s.

53. Several (Northeastern) textile executives played leading roles within this group, which produced the otherwise inexplicable sight of a handful of textile men supporting Franklin D. Roosevelt during the *Second* New Deal, and which for a brief period generated some interesting, if ultimately unimportant, wrinkles in the Hull-Roosevelt trade offensive in the mid 1930s. Boston merchant E. A. Filene, who established (and controlled) the Twentieth Century Fund, and who ardently championed what might be labeled the "retailers' dream" of an economy built on high wages and cheap imports, was deeply involved with this group. The small businessmen of the Taylor Society differed very slightly with their big business allies on two entirely predictable issues: antitrust and financial reform. Supreme Court Justice Louis D. Brandeis, who is usually credited as a major inspiration for many New Deal measures, had once served as Filene's attorney and remained closely associated with him and his brother, A. Lincoln Filene.

The leading figures in Industrial Relations Counsellors and their associates (who included, notably, Beardsley Ruml, head of the Spelman Fund, a part of the Rockefeller complex that began funding the first university-based industrial relations research centers) played important roles in virtually all major developments in labor policy across the 1920s. These included the campaign that forced the steel industry to accept the eight-hour day (which Herbert Hoover led in public); the milestone Railway Labor Act; and the increasing criticism of the use of injunctions in labor disputes (a legal weapon that was an essential element of the System of '96's labor policy) that eventually led to the Norris-La Guardia Act.[54]

Under all these accumulating tensions the elite core of the Republican Party began to disintegrate. The great boom of the 1920s exacerbated all the primary tensions over labor and international relations just described, while it greatly enhanced the position of the major oil companies and other capital-intensive firms in the economy as a whole (see Table 1). Though their greatest effects came after the downturn in 1929, secondary tensions also multiplied during the boom. One, which affected partisan competition even in the 1920s, concerned investment banking. A flock of new (or suddenly growing) houses sprang up and began to compete for dominance with the established leaders: the House of Morgan and Kuhn, Loeb. In time these firms would produce a generation of famous Democrats: James Forrestal of Dillon, Read; Averell Harriman of Brown Brothers Harriman; Sidney Weinberg of Goldman, Sachs; John Milton Hancock and Herbert Lehman of Lehman Brothers. Because many (though not all) of these bankers were Jewish, the competition with Morgan almost immediately assumed an ugly tone. J. P. Morgan Jr. quietly encouraged Henry Ford's circulation of the notorious *Protocols of the Elders of Zion* in the early 1920s, and later his bank forbade Morgan-Harjes, the firm's Paris partner, to honor letters of credit from Manufacturers Trust, a commercial bank with strong ties to Goldman, Sachs and Lehman Brothers.[55]

In commercial banking, rivals also began to contest Morgan's position. The Bank of America rose rapidly to become one of the largest commercial banks in the world. Though the competition did not yet take partisan form, the bank bitterly opposed Morgan interests, which attempted to use the New

54. Ruml's activities in this regard have been well chronicled in James Mulherin, "The Sociology of Work and Pattern of Development" (Ph.D. diss., University of California, Berkeley, 1979).

55. For the astonishing and complicated Morgan-Ford interaction, see, for example, Henry Ford to J. P. Morgan Jr., 7 May 1921, and Morgan to Ford, 11 May 1921, Ford Archives, Henry Ford Museum, Dearborn, Mich. Surrounding correspondence and an oral history memoir at the Archives indicate that a larger group of New York WASP businessmen was also involved and that one Charles Blumenthal, who had a definite though obscure connection to Morgan, subsequently helped out with articles in Ford's Dearborn *Independent*. For the Manufacturers Trust incident, cf. Thomas Lamont to V. H. Smith at Morgan Grenfell, 10 January 1927, Box 111, Lamont Papers.

TABLE 1. *Largest American industrials, 1909–48 (ranked by assets)*

Company	1909	1919	1929	1935	1948
U.S. Steel	1	1	1	2	3
Standard Oil of N.J.	2	2	2	1	1
American Tobacco	3	19			17
Int'l Mercantile Marine	4	12			
Anaconda	5	14	8	8	19
Int'l Harvester	6	13	17	14	18
Central Leather	7				
Pullman	8				
Armour	9	3	14	20	
American Sugar	10				
U.S. Rubber	11	8			
American Smelting & Refining	12	17			
Singer	13				
Swift	14	4	19	19	
Consolidation Coal	15				
General Electric	16	11	11	13	9
ACF Industries	17				
Colorado Fuel & Iron	18				
Corn Products Refining	19				
New England Navigation	20				
General Motors		5	3	3	2
Bethlehem Steel		6	5	7	12
Ford		7	6	6	10
Socony Mobil		9	7	4	5
Midvale Steel		10			
Sinclair Oil		15	16	16	15
Texaco		16	9	11	6
DuPont		18	12	9	7
Union Carbide		20			14
Standard Oil of Ind.			4	5	4
Standard Oil of Calif.			10	10	11
Shell			13	15	
Gulf			15	12	8

TABLE 1. *continued*

Company	1909	1919	1929	1935	1948
General Theater Equip.			18		
Kennecott			20	18	
Koppers				17	
Sears Roebuck					13
Westinghouse					16
Western Electric					20

Source. A. D. H. Kaplan, *Big Enterprise in a Competitive Setting* (Washington, D.C.: Brookings, 1962), pp. 140ff.

York Federal Reserve Bank against it. Morgan also was hostile to Joseph Kennedy and other rising financial powers.[56]

The cumulative impact of all these pressures became evident in the election of 1928. Some of the investment bankers, notably Averell Harriman, turned to the Democrats. Enraged by the House of Morgan's use of the New York Fed to control American interest rates for the sake of its international objectives, Chicago bankers, led by First National's Melvin Traylor, organized and went to the Democratic convention as a massed body.[57]

Most sensationally of all, elements of the arch-nationalist, previously rock-ribbed Republican chemical industry went over to the Democrats. A more vivid illustration of how primary and secondary tensions generated by the boom were dealigning traditional elite alliances could scarcely be found. For more than a generation, the chemical industry had been solidly Republican. Industry spokesmen and publications never ceased observing that only the GOP tariff walls stood between them and ruin at the hands of foreign, especially German, competitors.[58] Before 1928 it would have been unthinkable for DuPont or some Union Carbide executives openly to support a national Democrat.

Behind this dramatic reversal is a political evolution that has three main parts. The special situation of the DuPont family in relation to other great fortunes in American society of that period constitutes the point of departure. Such statistics as are available indicate that the bulk of the truly colossal

56. A large mass of correspondence in the Lamont Papers testifies to the increasing bitterness within investment banking. Cf. Gordon Thomas and Max Morgan-Witts, *The Day the Bubble Burst* (Garden City, N.Y.: Doubleday, 1979).

57. This episode was reported in *Time*, 30 July 1928, p. 23.

58. For the chemical industry's commitment to tariffs, see Gerard Zilg's remarkable *DuPont* (Englewood Cliffs, N.J.: Prentice-Hall, 1974). Zilg's study deserves a much wider audience; for a brief analysis of some extra-intellectual factors affecting the book's reception, see Robert Sherrill, "The Nylon Curtain Affair: The Book That DuPont Hated," *The Nation*, 14 February 1981, pp. 172–76.

fortunes in America were made prior to World War I. (Not that a great amount of money has not been made since, but few newer fortunes have been generated to match those of Rockefeller, Morgan, or Henry Ford.)[59] The rise of the DuPonts, however, began with their profits from World War I explosives sales and continued with their investment in General Motors.[60] By comparison with most of the American superrich in the 1920s, the DuPonts' ratio of wealth to income was considerably below average. Consequently, while all the rich were strongly in favor of reduced taxes, which had risen as a consequence of the war, the DuPonts had a bigger incentive than most.[61]

Their spectacular success in the 1920s rendered the situation even more urgent. Not only did their General Motors investments and the DuPont corporation grow, but so did their position in United States Rubber and other large companies. By about 1925 Pierre DuPont had decided that reduced income taxes would require finding another source of revenue for the government. Consequently he, his brothers Irénée and Lammot, and several close associates, including John J. Raskob, took over the Association Against the Prohibition Amendment (AAPA). They campaigned throughout the country, opening contacts with hundreds of newspapers, aiming to encourage a repeal of national prohibition and then to levy taxes on liquor. At the start, the campaign was bipartisan: "As our average tax collections for the years 1923–26 from individuals and corporations were $1,817,000,000 resulting in a considerable surplus, it is fair to say that the British liquor policy applied in the United States [i.e. the legalization of liquor] would permit the total abolition of the Income Tax both personal and corporate. Or this liquor tax would be sufficient to pay off the entire debt of the United States, interest and principal, in a little less than fifteen years."[62]

The enormous departure this program represented from previous norms of the American upper class merits some attention. For over a century prohibition had been a cause not only of rural drys but, more importantly, of major manufacturers.[63] Large fortunes like the Rockefellers, together with some big retailers like J. C. Penney, had been lavish contributors to the Anti-

59. This discussion draws on a still-unpublished review of top American wealth holders by Philip Burch of Rutgers University.

60. Cf. Zilg, *DuPont*, chap. 9.

61. A striking confirmation of the role of late-developing large fortunes in the tax revolt of the '20s is the behavior of the chief representatives of the one other truly gigantic American fortune that, while considerably more mature than the DuPonts', nevertheless still remained in its "takeoff" phase during the decade: Andrew Mellon, leader of the Republican move to cut taxes.

62. A circular sent by Pierre DuPont to other wealthy Americans during the AAPA campaign, quoted in Fletcher Dobyns, *The Amazing Story of Repeal* (New York: Willett, Clark, 1940), p. 20. This study grasps the dynamics of the Repeal Movement far better than David Kyvig's *Repealing National Prohibition* (Chicago: University of Chicago Press, 1979).

63. See in particular the penetrating and splendidly detailed study by Paul Johnson, *A Shopkeeper's Millenium* (New York: Hill & Wang, 1979).

Saloon League and other proponents of liquor restrictions.[64] Their opposition to liquor was rationalized on religious grounds, although it was certainly also rooted in their desire to control unruly lower-class behavior.[65] DuPont, however, represented the cutting edge of science-based industry, the most powerful secularizing force in history.

But the DuPont interests had more concrete objectives than witnessing the cultural transformation of modern capitalism. Friction was increasing between this newly ascendent group and other large American fortunes—in particular with the House of Morgan, which had a strong, though minority, position in General Motors. After several unpleasant encounters, including a dispute over how much DuPont enterprises should pay for Morgan financing, the DuPonts made a bid for a share of Morgan's own U.S. Steel. After DuPont began a massive purchase of U.S. Steel stock, the Federal Trade Commission began an investigation (on a few hours' notice), forcing them to back off.[66]

Meriting separate mention as a cause of the "dealignment" of the party structure was an aspect of the rivalry with Morgan that related directly to the great foreign economic policy dispute that marked the 1920s but has so far been virtually unappreciated: American attempts to aid the reconstruction of Germany. American officials had seized German patents in the chemical and other industries during the war. Though the peace agreement (the United States, of course, did not ratify the Versailles Treaty) with Germany acknowledged the U.S. right to the patents, a Homeric struggle quickly broke out over what was to be done with them. Internationalists wanted to return at least some of them so that the Germans could build up an export capacity and pay off war debts. The chemical industry wanted to keep them.[67]

At first, the chemical industry prevailed. The Chemical Foundation was established to hold and license the patents. DuPont held about one-third of the stock, and the rest was held by other concerns. The foundation became the battleground for internationalist and protectionist forces. German chemical company agents worked with American bankers and government officials,

64. For Rockefeller, in particular, cf. Raymond Fosdick, *John D. Rockefeller, Jr.* (New York: Harper, 1956), pp. 250ff.

65. Cf. Johnson, *A Shopkeeper's Millenium*, for an excellent discussion of the early period.

66. A crucial letter establishing that the DuPonts were in fact seeking a seat on the board of U.S. Steel is Irénée DuPont to John J. Raskob, 31 March 1926, in the Raskob Papers, File 677, Eleutherian Mills-Hagley Foundation Library; see also Zilg, *DuPont*, pp. 230ff, on the broader divisions of interest, and several perhaps impolitic statements by Raskob; but note especially the bitter exchange on financing charges between Morgan partner Edward Stettinius and Lammot DuPont, after which the DuPonts appear to have withdrawn part of their business from Morgan (Edward Stettinius Sr. Papers, University of Virginia, Charlottesville). Pierre DuPont's own unhappiness with the frequently tense GM situation, even while its massive dividends were piling up, is clear; see, for example, Pierre DuPont to T. Coleman Dupont, 9 April 1924, Pierre DuPont Papers, Eleutherian Mills-Hagley Foundation.

67. Most of what follows is based on the Chemical Foundation Papers, in the Library of the University of Wyoming, Laramie.

including senators and President Harding himself, to get the patents back. To keep track of these efforts, the Chemical Foundation's able head, Francis P. Garvan, engaged private detectives. The surviving reports from these men, who were probably former F.B.I. agents, can be partially verified from other sources and vividly testify to the tensions that quickly developed.[68]

The banks and their allies could not overcome protectionist opposition. Former Attorney General Daugherty was indicted for taking a bribe to help return German assets.[69] J. Edgar Hoover, a close political ally of Chemical Foundation attorney A. Mitchell Palmer and Garvan, was appointed, and removed suspected German agents from the Federal Bureau of Investigation. And the government lost the suit it brought to force the Chemical Foundation to return the patents—in Wilmington, Delaware.

Continuing strains on the world economy intensified the pressure to aid Germany and heightened the antagonism between DuPont and the multinationals. Allen Dulles and other high officials in the U.S. Department of State attempted to stop American munitions exports that competed with the Germans; meanwhile, the Chemical Foundation was actively encouraging French resistance to Allied plans to put Germany back on its feet.[70] As American bankers helped organize huge loans to the Germans and looked on while most of the German chemical industry consolidated into one gigantic combine—I. G. Farben—tensions mounted.[71]

Although the DuPont Company had repeatedly explored (and would continue to explore, without much success) possibilities for coming separately to terms with the Germans, Pierre's brother Irénée, the president of the company, hand-delivered a stiff note protesting American loans for potential

68. For example: "B. says he, (B.) first discussed the Chemical Foundation matter with [New Hampshire Senator] Moses some six months ago and that Moses immediately went directly to President Harding and laid the matter before him. B. claims the entire credit for Harding's recent move [to help compensate the Germans]." From a detective report to Francis P. Garvan of the Chemical Foundation dated 4 July 1922, now in the personal possession of Dr. Anthony Garvan. Francis Garvan was closely associated with J. Edgar Hoover both before and after Hoover became head of the F.B.I. A few surviving letters now in a file belonging to the Garvan family in New York City show that the pair exchanged sensitive intelligence information. The Chemical Foundation Papers suggest that the detectives were probably ex-F.B.I. men. I have made intensive efforts to verify the contents of these reports and am persuaded that they constitute good evidence. For German efforts to secure the return of the patents, see also Joseph Borkin, *The Crime and Punishment of I. G. Farben* (New York: Free Press, 1978), pp. 170ff, in particular the discussion of John Foster Dulles.

69. Note that this case had nothing to do with the "Teapot Dome," the scandal for which the Harding administration is best remembered.

70. Dulles's efforts came to light as a result of a congressional investigation years later. See U.S. Senate, Special Committee Investigating the Munitions Industry, *International Munitions Control*, 37th Congress, 4 and 5 December 1934, pp. 2254ff, which reproduces minutes of a meeting between Dulles and the arms exporters.

71. The German chemical companies had, of course, worked closely together before the amalgamation of the mid 1920s.

German competitors to Secretary of Commerce Herbert Hoover.[72] The Chemical Foundation and other industry leaders joined in the campaign, but their efforts drew strong opposition. When the newly established Institute of Economics in Washington, D. C., prepared a skeptical report about foreign loans, the banks intervened and threatened its grants. Shortly thereafter the institute merged with another organization (creating the modern Brookings Institution).

> I learned yesterday, confidentially but reliably, that the continued existence of the Institute of Economics in Washington . . . is threatened. The Institute lives off a yearly grant of $150,000.00 which the Carnegie Corporation of New York awarded for ten years. In the next few days the Carnegie Corporation will decide whether this grant will be paid beyond 1932. In the heart of the Corporation strong opposition has risen. The leader of the opposition is Leffingwell, a member of the Morgan firm, who has for a long time been angry at the publications of the Institute, especially the books over Germany and France, because they depict the economic situation of these lands skeptically, and therefore influence the prospects for the bringing of the loans to these lands on the American market. It is clear that Leffingwell as a banker doesn't like such books. Also, Winston from the Treasury Department who in previous years had been friendly to the Institute is said in the most recent days to have turned and labeled the publications of the Institute "simple propaganda."
>
> Whether under these circumstances the plan of the Institute to write a new book on Germany and Dawes plan can be carried out, or whether Moulton [the Institute's head], who now fears the anger of the bankers, can find the courage to publish such a book is questionable.[73]

As the presidential election of 1928 loomed, all sides organized. The DuPont Co., for example, bought more than two dozen memberships for its top officials in the American Protective Tariff League, which had until then been declining.[74] The Chemical Foundation repeatedly sought to dissuade financiers from making additional foreign loans.

In early 1928 these conflicts came to a head. Anxious to secure support

72. See Irénée DuPont to W. F. Huntington, 6 March 1926, Box 26, DuPont Co. Papers, Eleutherian Mills-Hagley Foundation, for a full account of the visit to Hoover; see Irénée DuPont to Herbert Hoover, 6 March 1926; and Hoover to Secretary of State Kellogg, 12 March 1926 (the original letter is missing from the Hoover Papers, Hoover Presidential Library, West Branch, Iowa, but is plainly referred to in the letter to Kellogg that Hoover attached with it. (A copy of the original letter is in accession no. 1662, part of the DuPont Co. Archives.) In the light of later events, it is interesting that Hoover's response to these overtures was sympathetic but largely pro forma.

73. Translated from a confidential report to the German ambassador in Washington, 5 November 1926. The microfilm of this and related exchanges with Erich Warburg (nephew of Institute of Economics Trustee Paul Warburg) are now on National Archives Microfilm T 290, no. 27.

74. See, for example, J. Laffey, DuPont General Counsel Office, to P. S. DuPont et al., 8 March 1926, DuPont Co. Papers, written two days after Irénée met with Hoover.

from leaders of the internationalist bloc, Secretary of Commerce Hoover sent emissaries to Thomas Lamont at the House of Morgan. While not as rousing as it might have been, Lamont's response suggested that he and other internationalists might be open to persuasion:

> The ground swell for Hoover seems to be rolling up. Within the last two weeks, Hoover sent first Norman Davis [a close associate of Lamont's and formerly Woodrow Wilson's Under Secretary of State], then Julius Barnes to me, complaining that our partners—he mentioned you as a former one, and Tom Cochran—had been working against him and for Dawes [who later dropped out]. Barnes wanted to know what our real attitude was. I told him that there was no attitude as attaching to the firm in the whole matter. Each member of the firm, Republican or Democrat, as the case might be, had his own particular preferences. I said that we had always felt very friendly here toward Hoover. . . . I said that if Hoover were the nominee of the Republican Party we should all expect to support him loyally. With this Barnes expressed himself as very well satisfied and said that what he feared was that even if Hoover were the nominee the prejudice of some members here against him was so great as to lead them to work against him. I reassured him on that point.[75]

A tense and complex process of accommodation now began between Hoover and most of the multinational bloc. First, Wall Street lawyer John Foster Dulles, Lamont's old associate at the Versailles Conference and (because he was widely recognized as the leading American expert on Germany) already deeply involved in the advance planning for what eventually became the "Young Plan" revision of the older Dawes Agreement, crossed party lines—Dulles had backed Democratic candidate John W. Davis in 1924—and jumped aboard Hoover's bandwagon.[76] Warning German newspaper correspondents about the sensitivity of German reconstruction questions, Dulles quickly emerged as an important Hoover adviser. As Dulles joined his campaign, Hoover called a conference attended by representatives of most of the major American chemical companies, in part to discuss American policy toward I. G. Farben. Then he left town while a top operative in his preconvention campaign, Assistant Attorney General William ("Wild Bill") Donovan, addressed the group. Basing his decision in part on material supplied by I. G. Farben (through the German embassy), Donovan announced that the I. G.'s practices did not violate American antitrust laws.[77]

75. Lamont to Dwight Morrow, 16 December 1927, Lamont Papers.

76. For Dulles' activities, in particular, see Hoover to Dulles, 12 and 24 March, 31 May, and 16 June 1928; together with Dulles to Hoover, 2 March, 29 May, and 13 June 1928; all now in the Dulles Papers at Princeton University. See also R. W. Preussen, *John Foster Dulles* (New York: Free Press, 1982), pp. 92–96. It was Dulles who seems first to have supplied the Germans with a copy of the government's brief in its suit against the Chemical Foundation.

77. See von Knieriem to Ritter, 2 February 1928, National Archives Film T 290, no. 27, and the surrounding cables. Donovan's speech virtually quotes the I. G.'s formula as relayed in these cables; see the reprint of his address, "Foreign Cartels and American Industry," in

Almost simultaneously, long-running negotiations to divide parts of the world market for various products between DuPont, I. G. Farben, Britain's ICI, Allied, and other big chemical companies stalled. So did other talks aimed at wider agreements between DuPont, I. G. Farben, and ICI. Standard Oil of New Jersey formed its notorious "cartel" with I. G. and, together with the National City Bank and others, began preparing to establish American-I. G. Farben.[78]

As Secretary of Commerce, Hoover had acquired an immense reputation as the champion of American domestic industry. Right up to convention time, accordingly, important internationalists persisted in discreet attempts to renominate Coolidge. But as it became clear that the president could not be persuaded to run for what was generally reckoned to be a third term, more and more of them moved toward Hoover. After Democratic candidate Al Smith rejected an internationalist foreign-policy plank drawn up by an attorney for J. D. Rockefeller Jr. and Hoover declined to accept a platform plank, proposed by top executives of many chemical concerns and the Chemical Foundation, that condemned American capital exports to foreign competitors, the trend in favor of Hoover sharply accelerated.

With Hoover taking the side of the internationalists and receiving support from almost all the major figures of multinational liberalism, DuPont bolted. After a row on the General Motors board (where the House of Morgan, the Fishers, and other interests were aghast) John J. Raskob, an official of both General Motors and DuPont and a longtime associate of Pierre DuPont, assumed leadership of Al Smith's campaign. This created a sensation. But with Smith running for President against Prohibition on the only high-tariff platform in the history of the Democratic Party, the Democrats divided. Some Southerners deserted the party. Meanwhile, in New York, Franklin D. Roosevelt ran a gubernatorial campaign that clearly established distance between himself and Smith.

Though Smith's loss left a vacuum inside the Democratic Party, the strength of his urban support suggested that the next nomination could be worth a great deal. Raskob and DuPont moved to secure their control by establishing the modern form of the Democratic National Committee.[79] They pumped thousands of dollars into the party, for the first time giving it the means to

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Chemical Markets, March 1928, p. 281. Donovan's position can usefully be contrasted with what he had defended only a few months before in "The Antitrust Laws and Foreign Trade," speech delivered to the National Paint, Oil, and Varnish Association on 28 October 1927 (copy in Box 183 of the Hoover Commerce Department Papers at the Hoover Presidential Library).

78. See the discussion in Borkin, *I. G. Farben*, chap. 2; at this time Farben was supporting the liberal Weimar government. Not until the East Texas oil discoveries ruined the market for synthetic petroleum did it make its fateful switch. For the inability to reach agreement in the wider talks, see W. J. Reader, *Imperial Chemical Industries: A History* (London: Oxford University Press, 1975), 2: 47–49.

79. Cf. Zilg, *DuPont*, pp. 267ff.

hire permanent staff between campaigns. They also waged a vigorous propaganda war against Hoover.

The path to catastrophe: falling income and "national recovery"

The onset of the Great Depression opened a new phase in the decay of the now creaking System of '96. As the Depression grew worse, demands for government action proliferated. But Hoover, who gradually became so in thrall to the big banks that he concealed Morgan's crucial role in initiating his famous European debt moratorium of June 1931 by deliberately faking entries in a "diary" that he left historians (one of whom years later cited it as evidence for the independence of Hoover, and the American state from the bankers), opposed deficit-financed expenditures and easy monetary policies.[80] After the British abandoned the gold standard in September 1931 and moved to establish a preferential trading bloc, the intransigence of Hoover and the financiers put the international economy onto a collision course with American domestic politics. Increasingly squeezed industrialists and farmers began clamoring for government help in the form of tariffs even higher than those in the recently passed Smoot-Hawley bill; they also called for legalized cartels and, ever more loudly, a devaluation of the dollar through a large increase in the money supply.

Concerned, as Reserve Bank minutes show, at the prospect that the business groups and farmers might coalesce with angry, bonus-marching veterans, and worried also by French gold withdrawals, the Fed briefly attempted to relieve the pressure by expansionary open-market operations. But after a few months the policy was abandoned in the face of enormous pressures from both international and domestic sources: more French gold withdrawals (and British threats to do likewise), domestic hoarding, congressional budget battles, complaints by the Chicago Fed that rates on short-term government securities were weakening, and the simple observation by bankers and Fed directors that, as contemporary critics of monetarism have noted, excess bank reserves cannot invest themselves.[81]

80. In her *American Business and Foreign Policy* (Boston: Beacon Press, 1971), pp. 137–38, Joan Hoff Wilson cites a Hoover "diary" in the Hoover Presidential Library as the authority for an account in which Hoover worked *against* the bankers. Box 98 of the Lamont Papers contains transcriptions of the telephone conversations to which the "diary" refers. The transcriptions not only refute every detail of Hoover's account but actually record Lamont's specific instructions to the president to conceal the origins of the moratorium. (As Lamont signed off from the first conversation: "One last thing, Mr. President . . . if anything, by any chance, ever comes out of this suggestion, we should wish to be forgotten in this matter. This is your plan and nobody else's.") A mass of supporting correspondence in the file confirms the authenticity of the transcripts, while being grossly inconsistent with what Wilson reports about the "diary." (Hoover often harbored private misgivings about both his policies and his advisors—but he never consistently acted upon these doubts.)

81. This episode is extremely complex: Archives of the Federal Reserve Bank of New York contain a mass of relevant correspondence, including cables to and from the Banque de France (which was withdrawing gold) and the increasingly bitter complaints of the Chicago Fed that the open market operations were driving down the rate on government securities (e.g., J. B. McDougal to George Harrison, 9 July 1932).

Exactly as the earlier discussion of the effects of deflation on political coalitions suggested, Hoover's commitment to gold began driving inflationist, usually protectionist businessmen out of the GOP to the Democrats. Their swarming ranks (which, as will become evident below, came to include several major oil companies) triggered a virtual identity crisis among party regulars. As familiar rules of thumb about the growth of the world economy grew increasingly anachronistic, the mushrooming sentiment for monetary expansion and economic nationalism scrambled the calculations of the contenders for the Democratic nomination.

The developing situation called for the highest kind of political judgment from aspiring presidential candidates. At this point a legendary political operative came out of retirement to advise Franklin D. Roosevelt. Colonel Edward House had been a longtime adviser to Woodrow Wilson, normally an ardent champion of low tariffs and the League of Nations; but, perhaps most important for the First New Deal, he was now closely associated with Rockefeller interests.[82] Along with the more famous Brains Trust, which functioned largely as a transmission belt for the ideas of others, including, notably, investment bankers from Lehman Brothers, House helped chart Roosevelt's early path.[83] It was calculated to blur his image and make him acceptable to all factions of the party. Making overtures to William Randolph Hearst and other like-minded businessmen, Roosevelt repudiated his earlier strong support for the League of Nations, talked rather vaguely of raising tariffs, and began showing an interest in major revision of the antitrust laws.[84]

The tactics were successful. Roosevelt's supporters were able to defeat Smith and turn back an eleventh-hour effort led by Morgan, the National City Bank (which feared Roosevelt might abandon gold), and many public utilities (whose leader, Wendell Wilkie, helped organize a telegram blitz of the convention) to nominate Cleveland bank attorney Newton D. Baker.[85]

Coming into office at the very darkest moment of the Depression, with all the banks closed, Roosevelt moved immediately to restore business confidence and reform the wrecked banking structure. The real significance of

82. The House Papers, now at Yale University, contain many letters between House and important figures in the Rockefeller complex. One is quoted below.

83. Rosen, *Brains Trust*, p. 113, argues that House's influence on Roosevelt ebbed after March 1932. But the aging House could scarcely be expected to provide the daily memoranda and speeches that Roosevelt then needed. There is a sense in which House and all of Roosevelt's early advisors were supplemented, and in part supplanted, by many other forces then coming to life in the Democratic Party; however, House always remained a major actor in the New Deal.

84. See Rosen, *Brains Trust*, among many other works on the 1932 campaign.

85. The Newton Baker Papers now at the Library of Congress, Washington, D.C. and the Franklin D. Roosevelt Papers at the Roosevelt Library in Hyde Park, N.Y., have a mass of material on the primary and convention battles (e.g. the letters between Baker and Ralph Hayes in the Baker Papers). Rosen, *Brains Trust*, chaps. 9 and 10, presents considerable detail on the business opposition to FDR's nomination, and is very good on the stop-Roosevelt forces' manipulation of the press.

this bank reform has been misperceived. With the world economy reeling, the shared interest in a liberal world economy that normally (i.e., when the economy was growing) bound powerful rivals together in one political coalition was disappearing. In this once-in-a-lifetime context, what had previously been secondary tensions between rival financial groups now suddenly came briefly, but centrally, to define the national political agenda. With workers, farmers, and many industrialists up in arms against finance in general and its most famous symbol, the House of Morgan, in particular, virtually all the major non-Morgan investment banks in America lined up behind Roosevelt. And, in perhaps the least appreciated aspect of the New Deal, so did the now Rockefeller-controlled Chase National Bank.

In the eighteen months previous to the election, relations between Rockefeller and Morgan interests had deteriorated drastically. After the crash of 1929 Equitable Trust, which Rockefeller had purchased and in the late 1920s sought to build up, had been forced to merge with the Morgan-oriented Chase National Bank. The merger caused trouble virtually from the beginning. Thomas W. Lamont and several other banking executives allied with Morgan attempted to block the ascent of Winthrop Aldrich, the brother-in-law of John D. Rockefeller Jr., to the presidency of the Chase. Their efforts, however, proved unsuccessful, and Aldrich quickly, if apparently rather tensely, assumed an important role in Chase's management. But when Rockefeller attempted to secure a loan for the construction of Rockefeller Center (which threatened [Pierre] DuPont and Raskob's Empire State Building, already under construction and unable to rent all its space with the collapse of real-estate values), the bank seems not to have gone along. The chief financing had to come instead from Metropolitan Life. An old dispute between two transit companies, one controlled by the Morgans and the other perhaps by the Rockefellers, also created problems.[86]

Though sniping from holdover employees continued for several years, operating control of Chase passed definitively out of Morgan hands in late 1932. With longtime Chase head Albert Wiggin retiring, Aldrich was announced as the next chairman of the bank's governing board, and plans were made to reorganize the board of directors.

In the meantime, the East Texas oil discoveries dropped the price of oil

86. For Lamont's dramatic bid to block Aldrich, see Aldrich interviews, Chase Manhattan Bank Oral History Project, 29 November 1961, now in the Winthrop W. Aldrich Papers, Baker Library, Harvard University; for apprising me of the Rockefeller Center financing controversy I am grateful to Robert Fitch, whose own work on urban development and American political structures involved a lengthy period of work in the Rockefeller Archives. For the subway battle, see the *New York Times*, 31 July and 27 and 31 August 1932; as well as Cynthia Horan of M.I.T.'s unpublished study of the New York City Bankers Agreement, "Agreeing with the Bankers: New York City's Depression Financial Crisis." (Exactly who controlled the Manhattan Elevated, one of the parties in the urban transit dispute, is unclear, though the *New York Times* indicates that the Rockefellers did. Aldrich had certainly represented the line in the late 1920s, when one of several bitter disputes with a Morgan-controlled subway was in litigation.)

to ten cents a barrel. It was a development that, among other things, ruined the cost calculations underlying the Standard-I. G. Farben schemes for massive synthetic oil production and removed that issue from the political agenda. But it also brought the entire oil industry to the brink of disaster. Becoming more interested in oil and domestic recovery, and less in banking, Rockefeller interests urged a substantial relief program on Hoover, who brusquely rejected it. Almost simultaneously top Rockefeller advisor Beardsley Ruml, then still at the helm of the Spelman Fund and a prominent Democrat, began promoting a complicated plan for agricultural adjustment. At Chicago the Roosevelt forces accepted some of its basic concepts, just ahead of the convention.[87]

Only a few days before the 1932 presidential election, Morgan discovered that high Chase officials were supporting Roosevelt.[88] Colonel House's daughter was married to Gordon Auchincloss, Aldrich's best friend and himself a member of the Chase board. During the campaign and transition period, House and Vincent Astor, Roosevelt's cousin and also a member of the reorganized Chase board, passed messages between Roosevelt and Chase.[89]

A few days after Roosevelt was inaugurated, Chase and the investment bankers started their campaign, both in public and in private, for a new banking law. Aldrich made a dramatic public plea for the complete separation of investment and commercial banking. Then he began personally to lobby Roosevelt and high administration officials: "I have had a very interesting and refreshing conversation with Mr. W. W. Aldrich. . . . I also suggest that you consider calling in, when convenient to you, Senators Glass and Bulkley and Mr. Aldrich to discuss the advisability and necessity for dealing not only with the divorcement of affiliates from commercial banks but the complete divorcement of functions between the issuance of securities by private banks over whom there is no supervision and the business of commercial banks. We feel that this suggestion should be incorporated in the Glass Banking Bill."[90]

Aldrich also joined the ancestral enemies of the banks—William Randolph

87. Agricultural economist M. L. Wilson is normally identified as the author of the adjustment plan. For Rockefeller's role in financing Wilson's early work, see Rosen, *Brains Trust*, p. 180; see p. 178 for Ruml's role in the famous Wilson-Rexford Tugwell meeting on the eve of the convention.

88. See the crucial letters of Thomas W. Lamont to various business associates and attached memoranda in Box 123 of the Lamont Papers, and my discussion of them in "Elites and Elections."

89. Some of these are in the House Papers, others in the Aldrich Papers. See, e.g. the House-Auchincloss correspondence in the former.

90. Secretary of Commerce Daniel Roper to Franklin D. Roosevelt, 28 March 1932, Roosevelt Library. This is one of many documents relating to Aldrich's vast lobbying efforts; other aspects of this legislation involved fairly heated exchanges between the Bank of America and the National City Bank of New York. While not as enduringly significant as the separation of investment from commercial banking, these conflicts persisted for some years and complicated the position of the National City Bank during much of the New Deal.

Hearst, Samuel Untermeyer, South Dakota Senator Peter Norbeck, and others promoting Ferdinand Pecora's investigation of J. P. Morgan & Co. He cooperated fully with the investigation, promoted "reforms," and aided investigators examining the Wiggin era at Chase.

> Winthrop Aldrich, President of the Chase National Bank, got in touch with me yesterday through Gordon Auchincloss. I found Aldrich sympathetic to the last degree of what the President is trying to do, and I advised him to tell the Banking Committee the whole story. He is prepared to do this, and has gone to the country today to write his proposed testimony in the form of a memorandum, a copy of which he is to send me tomorrow morning. He intimated that if there was any part of it that I thought should be changed he would consider doing so. . . . He tells me that his Board is back of him and some few of the leading bankers. However, most of them are critical and many are bitter because of what they term his not standing with his colleagues.[91]

These efforts came to fruition in the Glass-Steagall Act. By separating investment from commercial banking, this measure destroyed the unity of the two functions whose combination had been the basis of Morgan hegemony in American finance. It also opened the way to a financial structure crowned by a giant bank with special ties to high-technology industry—oil.

With most of the (Morgan-dominated) banking community opposed to him, Roosevelt looked toward industry for allies. By now an uncountably large number of firms, for reasons discussed earlier, were actively seeking inflation and, usually, an abandonment of the gold standard. For more than a year, for example, Royal Dutch Shell, led by Sir Henry Deterding, had been campaigning to get Britain, the United States, and other major countries to remonetize silver. At some point—it is impossible to say exactly when—Deterding and his American financial advisor Rene Leon began coordinating efforts to secure some kind of reflation with James A. Moffett, a longtime director and high official of the Standard Oil Company of New Jersey, and a friend and early supporter of Roosevelt.[92]

While they campaigned to expand the money supply, a powerful group of industrialists, large farm organizations, and retailers organized separately for the same general end. Led by Bendix, Remington Rand, and Sears Roebuck, they called themselves "The Committee for the Nation." As Roosevelt took over in the spring of 1933, contributions from Standard Oil of New Jersey and many other industrial firms were swelling this committee's war-

91. House to Roper, 21 October 1933, House Papers.

92. The chief source for most of what follows are the personal papers of Rene Leon, copies of which are now in my possession. See also the correspondence between Walter Lippmann and Leon, now in the Lippmann Correspondence at Yale, and between Moley, Leon, and Deterding in the Moley Papers. Moffett later joined Standard of California.

chest.[93] The committee was vigorously pushing the president to go off the gold standard.

Working closely with sympathizers in the Treasury Department, the banks fought back. Federal Reserve Bank minutes show the Executive Committee of the System Open Market Committee distinguishing between "technical" and "political" adjustments of the money supply, with the political adjustments designed to head off demands for reflation.[94] But the industrialists could not be denied. Moffett and Leon found legal authority for Roosevelt to go off gold during the banking crisis, when even the banks conceded the step to be briefly necessary. Later the same pair teamed up to reach Roosevelt at the crucial moment of the London Economic Conference and persuaded him to send the famous telegram destroying the hopes for informal agreements on currency stabilization devoutly wished for and almost achieved by James P. Warburg and other international financiers.[95] Still pressured by the Committee for the Nation and the oil companies, Roosevelt embarked on his famous gold-buying experiments in the autumn, driving most of the banks to distraction. Roosevelt also continued with the National Recovery Administration, whose name wonderfully symbolized the logic of a political coalition built around protectionist industrialists (whose ranks had been swelled by the collapse of world trade, and with whom even major oil companies desperate for price controls could at least cooperate), farmers, and the handful of major bankers whose distinctive trait was an absence of ties to Morgan and, in the most important case, a special relationship with the oil industry.

When the first Treasury Secretary, William Woodin, had to resign because of ill health, Henry Morgenthau Jr., the Committee for the Nation's candidate to replace him, received the job.

> I noted with a great deal of pleasure the appointment of Mr. Morgenthau as Assistant Secretary of the Treasury, which I assume put him in charge of the Treasury Department during Mr. Woodin's illness. If that illness continues, I trust that Mr. Morgenthau will become his successor. There is a certain group of men in this country, who opposed your

93. The Frank Vanderlip Papers at Columbia University, New York City, contain the financial records of the Committee for the Nation during this period. The Standard Oil contributions are plainly listed there.

94. See, for example, the Minutes of the Executive Committee of the Open Market Committee, 21 September 1933; these are in the George Harrison Papers at Columbia University and available at the Federal Reserve Bank of New York. Copies also appear in the Minutes of the Directors Meetings of the Federal Reserve Bank of Boston for 4 October 1933, and other dates.

95. When Mrs. Rene Leon originally told me of her husband's efforts to block the efforts of Warburg and the other financiers at the London Conference, she could not remember the name of the businessman who had assisted him. The Leon Papers make it obvious that Moffett was the man as, independently, Mrs. Leon subsequently wrote me. A copy of what is perhaps the urgent telegram sent to warn FDR against Warburg's efforts, which Mrs. Leon remembers her husband dispatching, can be found in Raymond Moley's Papers relating to the London Conference. When that telegram came into Moley's hands is not clear; but this and other files in the Moley Papers contain numerous messages from Leon and even Deterding himself.

TABLE 2. *National income by quarters, 1929–36 (in 1972 $billions)*

1929-1	317.7	1932-1	244.3	1935-1	268.8
-2	321.2	-2	228.8	-2	265.5
-3	321.6	-3	217.1	-3	278.8
-4	312.3	-4	222.2	-4	287.7
1930-1	300.2	1933-1	199.7	1936-1	279.1
-2	292.0	-2	223.8	-2	294.5
-3	280.9	-3	242.4	-3	302.8
-4	274.9	-4	227.0	-4	317.3
1931-1	282.7	1934-1	239.7		
-2	284.4	-2	244.4		
-3	266.2	-3	235.4		
-4	254.4	-4	241.6		

Source. Figures for "actual real GNP" from Robert J. Gordon, unpublished data appendix to "Price Inertia and Policy Ineffectiveness in the United States, 1890–1980," *Journal of Political Economy* 90, 6 (1982): 1087-1116. Numbers rounded.

> nomination and your election, and who have opposed the great majority of the policies you have put into effect and who are preparing for the final fight against your monetary policy. In every possible way they are putting out a barrage to interfere with the fulfillment of that policy. You are fortunate in having a man like Mr. Morgenthau who will have the strength and courage to carry out that monetary policy.[96]

Phoenix rises: economic upturn and the return of the multinational bloc

But as Part I's analysis suggested as to how recovery threatens political coalitions built around the relief of monetary emergencies, this first New Deal was desperately unstable. Once the worst phase of deflation ended and the economy began slowly to revive (Table 2), industries with good long-term prospects in the world economy would start exploring ways to resume profitable overseas business. In time, this search would necessarily bring them back in the direction of the international banks, which (with the obvious exceptions noted above) generally opposed the NRA, and away from the economic nationalists for most of whom the NRA initially represented the promised land. In addition, the NRA's half-hearted and incoherently designed attempt to supplement price mechanisms with administrative processes for the allocation of resources bitterly divided its natural constituency of protectionist businessmen.

Not surprisingly, therefore, the NRA began to self-destruct almost from

96. Robert Wood to Franklin D. Roosevelt, 16 November 1933, Robert Wood Papers, Herbert Hoover Presidential Library. Wood was president of Sears Roebuck, and a leader of the Committee for the Nation.

the moment it began operations. Freer traders fought with protectionists; big firms battled with smaller competitors; buyers collided with suppliers. The result was chaos. The situation was especially grave in the biggest industry of all, the oil industry. There the majors and the smaller independent oil companies stalemated in the face of massive overproduction from the new East Texas fields.[97]

As the industries fought, labor stirred. A bitter series of strikes erupted as the ambiguous wording of the National Recovery Act's 7A Clause, guaranteeing employee representation, came to be interpreted as securing "company" rather than independent trade unions.[98]

With the pressure beginning to tell on Roosevelt, he looked around for new allies. He sponsored an inquiry into foreign economic policy conducted by Beardsley Ruml, which recommended freer trade. Simultaneously he allowed Secretary of State Cordell Hull to promote reciprocal trade treaties in a series of speeches. The prospect of a change in U.S. tariff policy drew applause from segments of the business community that had mostly been hostile to Roosevelt. The Council on Foreign Relations sponsored a symposium in which journalist Walter Lippmann declared that freedom itself could probably not be maintained without free trade.[99]

As the first New Deal coalition disintegrated under the impact of inter-industrial and class conflicts, Roosevelt turned more definitely toward free trade. He pushed through Congress a new bill (bitterly opposed by steel, chemicals, and other industries) giving Hull the authority to negotiate lower tariffs and then let him build support for the trade treaties.

The rest of the New Deal's program stalled. With their public support already eroded, the NRA and other measures were declared unconstitutional by the Supreme Court. Largely out of ideas, Adolph A. Berle and other administrators anxiously eyed the activity of the Left, the prospect of strikes, especially in the steel industry, and sporadic urban disorders.

> Mr. Berle stressed the need for prompt action in any program of economic security. He dreads the coming winter. While the City of New York has gotten along better in the past months than was to be expected, the City's finances are near the exhaustion point. Mr. Berle also stated that the 'market' was 'jittery' about the credit of the federal government. Another complete financial collapse is distinctly possible if 'Wall Street' should decide to 'dump' U.S. bonds, which Mr. Berle thinks it might be foolish enough to do. The Communists are making rapid gains in New York City and the one thing that can save the city is very prompt action which will give the people out of work something

97. See, among others, Norman Nordhauser, *The Quest for Stability* (New York: Garland, 1979), chap. 8. I have profited greatly from the material in the J. R. Parten Papers.
98. See, for example, Sidney Lens, *The Labor Wars* (Garden City, N.Y.: Doubleday, 1973), pp. 288ff.
99. See Walter Lippmann, "Self-sufficiency: Some Random Reflections," *Foreign Affairs*, January 1934.

> better than they now have. The fiscal situation is such that the total costs of taking care of these people cannot be increased. The prompt enactment of an unemployment insurance bill and, if possible, old age pension legislation would have a very wholesome effect. Mr. Berle believes that the unemployment insurance system should be a national one, but with regional differentials, but he thinks that something like the regional organization in the Federal Reserve Bank system might well be used for unemployment insurance. Mr. Berle apparently was not familiar with the Wagner-Lewis bill but when this was explained to him he felt that it might prove a way out. Any unemployment insurance system adopted should be put into operation at once, both to give new hope to the unemployed and to bring in new revenue badly needed to take care of the large numbers of people to be cared for at this time. . . .[100]

In this, the darkest point of the New Deal, at the moment in which other countries had terminated constitutional régimes, the first successful capital-intensive–led political coalition in history began dramatically to come together.

As national income continued its gradual rise, John D. Rockefeller Jr. and his attorney, Raymond B. Fosdick, voted a special grant from the Spelman Fund to pay staff of the Industrial Relations Counsellors while they worked on social welfare legislation within federal agencies. Then the capital-intensive big business members of the Commerce Department's Business Advisory Council, led by Walter Teagle of Standard Oil and Gerard Swope of General Electric, joined leaders of the Taylor Society on an advisory committee whose task was the preparation of the Social Security Act. Backed by Aldrich, Harriman, Thomas Watson of IBM, George Mead of Mead Paper, the Filenes, and a huge bloc of retailers and other corporations, the group subcontracted preparation of the bill to International Relations Counsellors (where Teagle and Owen D. Young, the board chairman of General Electric, were, or within months became, trustees). With slight changes, that bill, with its savagely regressive tax on payrolls, became the law of the land.[101]

Almost simultaneously, the decisive legislative struggle over the Wagner National Labor Relations Act came to a climax. Throughout 1934 strikes and work stoppages had mounted. In June 1935, the National Recovery Act

100. "Memorandum on the Views Relating to the Work of the Committee on Economic Security Expressed by Various Individuals Consulted," National Archives Record Group 47, Public Record Office, Washington D.C. The interviews reported in this memo were taken "on a trip to New England and New York on August 19–21, 1934." I am grateful to Janet Corpus for bringing this memo to my attention.

101. It is impossible to inventory all of the relevant citations here, but see the material in Record Group 47 of the National Archives and, especially, the material in Box 31 of the Ralph Flanders Papers, Syracuse University Library, Syracuse, N.Y.

was due to run out, threatening to leave the country without any machinery for processing class conflicts.[102]

As Armageddon approached, the conservative American Federation of Labor (AFL) was becoming increasingly desperate. Roosevelt had fairly consistently sided with business against it, and the federation was increasingly divided and rapidly losing control of its own membership. AFL memoranda of the period show that top union officials were convinced that without a new labor relations law they were going to be destroyed.[103]

But while many big business executives were sympathetic to the strongly conservative union's plight (Alfred P. Sloan, for example, wrote frankly that the AFL had to be preserved because it constituted a bulwark against Communism),[104] they adamantly opposed any extension of the legal rights of unions. Caught between the warring groups, Robert Wagner, the senator from New York, the most perfectly representative high-technology state in America, began searching for compromise while Edward Filene's Twentieth Century Fund opened a special inquiry. Working closely together, the fund and Wagner began considering alternatives. Shown drafts of a proposed bill, the general counsels of U.S. Steel and most other industries shifted into open opposition. Teagle and Swope, however, began meeting with Wagner. What happened next is too complex to be fully described here. All that can be said is that attorneys for the AFL pressed the Twentieth Century Fund for a stronger bill; Wagner took some amendments Teagle and Swope proposed to the sections defining unfair labor practices; a number of mostly Northeast textile and shoe firms, which were hoping to stop the flow of jobs to the South, promoted the legislation; and the Twentieth Century Fund trustees (which included not only E. A. Filene but important members of the Taylor Society and several other major business figures) joined Mead, several tobacco executives, probably Swope, and perhaps Teagle, in endorsing the bill. The fund then assisted the lobbying effort, arranging testimony and helping to defray some of the costs Wagner was incurring.[105]

Almost at the same instant, Roosevelt turned sharply away from the pro-

102. Some authors suggest that because strike rates went from ionospheric in 1934 to merely stratospheric in 1935, the Wagner Act cannot have been adopted in response to pressure from labor. In fact, the expiration of the NRA determined when the soaring overall rate of class conflict would affect the statutes. The Supreme Court decision declaring the NRA unconstitutional came only days ahead of the law's lapse. Obviously, what follows on the origins of the Wagner Act hardly suffices as a treatment of the rise of labor during the New Deal. I largely discuss elite responses to mass protest; I do not pretend to be offering a theory of the labor movement.

103. See, for example, Charlton Ogburn to William Green, 7 January 1935, Box 282, W. Jett Lauck Papers, University of Virginia.

104. See Sloan's remarkable letter to J. J. Raskob, 23 October 1934, Raskob Papers.

105. In the Twentieth Century Fund deliberations, some railroad leaders, noting the Wagner bill's similarity to the Railway Labor Act, supported its passage; Industrial Relations Counsellors opposed some of its key provisions; while nearly all the businessmen sought an equivalent "unfair labor practice" provision applying to unions. AFL attorney Charlton Ogburn, however, won out. Some aspects of New Deal tax policy (which was certainly not radical) should probably also be viewed as evidence of labor's rising power.

posals for more inflation and stronger federal control of banking advanced by the Committee for the Nation and major farm groups. For some time the administration had been buying silver (to the great satisfaction of Western senators from silver-producing states, Shell, and silver speculators the world over) but holding the dollar firm against the pound. After ferocious infighting, the administration now accepted a compromise Federal Reserve Act of 1935.[106] The measure contained provisions (ardently promoted by Chase President Aldrich, who played a key role in the final negotiation) reconfirming the separation of investment from commercial banking. It also confirmed the supremacy of the Board of Governors in Washington over the New York Federal Reserve and the other regional banks, as the Bank of America and other leading non-New York banks (including the chain controlled by Fed Chairman Eccles) had long desired.

Only days later, as Democratic Party leader James Farley collected cash contributions from oil companies, Roosevelt overruled Interior Secretary Harold Ickes and established a compromise oil price control scheme. With its implementation, the highest of major American high-technology industries achieved near-complete price control for a generation.[107]

The powerful appeal of the unorthodox combination of free trade, the Wagner Act, and social welfare was evident in the 1936 election. A massive bloc of protectionist and labor-intensive industries formed to fight the New Deal. Together with the House of Morgan (which had reasons of its own to oppose Roosevelt), the DuPonts recruited many of these firms into the Liberty League. They were joined by some firms hoping to find a Republican candidate to run a milder New Deal.

But Standard Oil could not abide Alfred Landon, who had once been in the oil business as an independent in Kansas. On the eve of the Republican Convention, Standard Oil dramatically came out against him.[108] In addition, a furious battle raged in the Republican camp over Hull's reciprocal trade treaties. Landon, who was at that moment surrounded by advisors from major banks, including James Warburg and figures from both Chase and

106. Morgan had sought to repeal Glass-Steagall. Aldrich blocked this, but had to accept a shift of power within the Fed from the New York Bank to the Board of Governors in Washington, which the Bank of America and other non-New York bankers championed. The almost simultaneous legislation aimed at breaking up public utility holding companies drove another nail into the coffin of the House of Morgan, for that bank totally dominated the industry, especially after Insull's bankruptcy.

107. The Parten Papers, along with those of Interior Secretary Ickes at the Library of Congress and Texas Governor James Allred, now in the University of Houston Library, Houston, Texas, contain large amounts of material on oil issues. See, as one example, Franklin D. Roosevelt to Governor E. W. Marland of Oklahoma, 17 May 1935 (copy in the Allred Papers).

108. See Bernard Baruch to Eugene Meyer, 20 May 1936, Baruch Papers, Seeley Mudd Library, Princeton University. Meyer was at that time helping to run the Landon campaign. Note that in autumn 1935 Standard had helped turn aside Hoover's bid for the '36 nomination (see Herbert Hoover to Lewis Strauss, 23 September 1935, Lewis Strauss Papers, Hoover Presidential Library).

Morgan, originally favored them. But the Chemical Foundation and many industrialists were bitterly opposed. At the Republican convention the latter group prevailed during the writing of the platform. For a few weeks thereafter, however, it appeared that the free traders would nevertheless win out. Landon repudiated that part of the platform and ran as a free trader.[109]

But the protectionists did not give up. Organizing many businesses into the "Made in America Club," and backed by Orlando Weber of Allied Chemical and other top executives, Chemical Foundation President Francis Garvan and journalist Samuel Crowther, author of a book called *America Self-Contained* who enjoyed close ties with many businessmen, began kamikaze attacks to break through the cordon of free-trading advisors who were attempting to wall off Landon. Eventually they succeeded in getting their message through:

> On the foreign trade and gold, Landon was extremely interested and he gave no evidence of ever before having heard of either subject. Saxon had not gone into the gold question and, in a general way, seemed to size up like the ordinary economist—that is, as having learned nothing that was not in his textbooks. However, [Chemical Foundation advisor and farm leader] George Peek went back and forth over this subject, in terms of Landon's own business, and Landon seemed thus to get a grasp of what it was all about. Saxon also wanted to go a great deal further into it. Peek hammered the subject of the tariff and of our whole foreign trade program and, although he could not say positively that Landon accepted it as his paramount issue, he did believe that by the time he left, Landon had begun to realize something and that he would go further. He was not so certain as to Saxon, who is more or less of the orthodox economic type, but he felt there had at least been an awakening. Saxon agreed that, whatever the merits of stabilization, the first movement must be to get at American money and not to take an excursion into international stabilization.[110]

Though Warburg and the other bankers repeatedly warned him against it in the strongest possible terms, Landon began to waver. In mid and late September his campaign began to criticize Hull's treaties.

His attacks alienated many multinationalists, who had watched with great interest Roosevelt's effort to stabilize the dollar. When, after speeches by First National's Leon Fraser and others, Roosevelt opened negotiations with Britain and France, the New Deal began to look like a good deal to them. It became still more attractive when the Tripartite Money Agreement was announced in September and after the Roosevelt administration raised reserve

109. The Chemical Foundation Papers contain much material on Francis P. Garvan's efforts to promote protectionism around the time of the Convention. See especially Garvan's correspondence with F. X. Eble and Samuel Crowther, in Box 11-2.

110. Samuel Crowther to Francis P. Garvan, 18 July 1936, Box 11-2, Chemical Foundation Papers.

requirements on bank deposits, as many bankers had been demanding. As Landon's attacks on the trade treaties increased (but, be it noted, while many of his polls were holding up, including the *Liberty Digest*, which had never before been wrong), a generation of legendary American business figures began backing out of the Republican campaign. On active service in war and peace, Henry Stimson, who had already backed the treaties, refused to support Landon and withdrew from the campaign. On 18 October, as spokesmen for the Rockefeller interests debated issuing a veiled criticism of the Liberty League, came the sensational announcement that James Warburg, who since his noisy public break with FDR two years before had waged unremitting war on the New Deal and frequently advised Landon, was switching to Roosevelt out of disgust with Landon's stand on the trade treaties. Only a couple of days after Warburg released his rapturous public encomium to Hull, Dean Acheson, Warburg's friend and former associate at the Treasury Department, did exactly the same thing. So did cotton broker William Clayton, who also resigned from the Liberty League.

> On October 29, at a mass meeting in the heart of the Wall Street District, about 200 business leaders, most of whom described themselves as Republicans, enthusiastically endorsed yesterday the foreign trade policy of the Roosevelt Administration and pledged themselves to work for the President's reelection.
>
> After addresses by five speakers, four of whom described themselves as Republicans, the Meeting unanimously adopted a resolution praising the reciprocal trade policy established by the Roosevelt Administration under the direction of Secretary of State Cordell Hull. . . . Governor Landon's attitude on the reciprocal tariff issue was criticized by every speaker. They contended that if Landon were elected and Secretary Hull's treaties were revoked, there would be a revolution among conservative businessmen. . . .[111]

While the Republicans switched, the Democrats fought. The Bank of America and New Orleans banker Rudolph Hecht, who was just coming off a term as president of the American Bankers Association, bulwarked the "Good Neighbor League," a Roosevelt campaign vehicle. Lincoln and Edward Filene supported the president to the hilt, as did sugar refiner Ellsworth Bunker, a major importer from the Caribbean. Sidney Weinberg of Goldman, Sachs, came back into the campaign and raised more money for Roosevelt than any other single person. Behind him trailed a virtual Milky Way of non-Morgan banking stars, including Averell Harriman of Brown Brothers Harriman; James Forrestal of Dillon, Read; and probably John Milton Hancock of Lehman Brothers.

From the oil industry came a host of independents, including Sid Richardson, Clint Murchison, and Charlie Roesser; as well as Sir Henri Deterding,

111. *New York Times*, 29 October 1936, p. 10.

James A. Moffett of Standard Oil of California, W. Alton Jones of Cities Services, Standard Oil of New Jersey's Boris Said (who helped run Democratic Youth groups), and M. L. Benedum of Benedum-Trees. Top executives of Reynolds Tobacco, American Tobacco, Coca Cola, International Harvester, General Electric, Zenith, IBM, Sears Roebuck, ITT, United Fruit, Pan Am, and Manufacturers Trust all lent support. Prodded by banker George Foster Peabody, the *New York Times* came out for Roosevelt, as did the Scripps-Howard papers.[112]

In the final days of the campaign, as Landon furiously attacked social security, Teagle of Standard Oil of New Jersey, Swope of GE, the Pennsylvania Retailers Association, the American Retail Federation, and the Lorillard tobacco company (Old Gold), among others, spoke out in defense of the program. Last, if scarcely least, the firm that would incarnate the next thirty years of multinational oil and banking, the Chase National Bank, loaned the Democratic National Committee one hundred thousand dollars.

The curtain fell on the New Deal's creation of the modern Democratic political formula in early 1938. When the United States plunged steeply into recession, the clamor for relief began again as it had in 1933. Pressures for a revival of the NRA also mounted. But this time Roosevelt did not devalue the dollar. With billions of dollars in gold now squirreled away in the Fed, thanks to administration financial policies and spreading European anxieties, early 1930s' fears of hoarding and runs on gold had vanished. As a consequence, reflation without formal devaluation or a revival of the NRA became a live option. Rockefeller advisor Beardsley Ruml proposed a plan for deficit spending, which Roosevelt implemented after versions won approval from Teagle and nearly all the important bankers, including Morgan. Aldrich then went on NBC radio to defend compensatory spending from attacks, as long as it was coupled with measures for free trade (to the great annoyance of the DuPonts). Slightly later, the State Department, acting in secret with the Chase National Bank, and in public with the Catholic cardinal of Chicago and high business figures, set up a committee to promote renewal of the Reciprocal Trade Act in the wavering Corn Belt.[113] They were successful. National income snapped back and the multinational bloc held together. As it would be through most of the next generation, the national Democratic Party was now committed: it was the party of the "people"—and of internationalism and free trade.

112. The details of all the high-level switches around the trade issues and the complex positions of some large interests (such as the Rockefellers) cannot be discussed here for reasons of space. Note, however, George Foster Peabody to A. H. Sulzberger of the *New York Times*, 5 December 1935, on the importance of good coverage for FDR and Sulzberger's accommodating reply of 12 December, both in George Foster Peabody Papers, Box 50, Library of Congress. Peabody held a large demand note on Roosevelt's Warm Springs, Ga., Foundation.

113. For some documentation on the trade committee, cf. Aldrich Papers, Box 67. For Ruml's role in the deficit spending plan, cf. Robert Collins, *Business Response to Keynes* (New York: Columbia University Press, 1981), pp. 69ff.

Conclusion: the triumph of multinational liberalism in America

In a longer analysis it would be desirable to distinguish various stages in the transformation of the Second New Deal into an organizing principle in American politics—through World War II, the Fair Deal, and the Cold War, for example. It would also be important to analyze more extensively how class conflicts rose and ebbed during this period, as well as how some of the secondary tensions discussed earlier, notably those involving investment and commercial banking, were finally resolved. One would also want to look more carefully at the vicissitudes of Hull's trade policy, especially in regard to cotton textiles, the fate of agriculture, and the changing role of the Supreme Court (where the chief justice chanced to be Standard of New Jersey's former top policy adviser). Nevertheless, even this abbreviated presentation establishes several important points of both substance and method.

First of all, it should make plausible the claim that by at least late 1938 all the elements of what deserves recognition as a distinct "System of '36" were, at least provisionally, in place—social welfare, oil price regulation, free trade, even "Keynesianism." Though all of these measures except the fixed price for oil still drew massive, well-financed opposition, the logic of their combination into a powerful and immensely popular political coalition was now apparent.

No less important, this analysis specifies far more precisely the role labor (and a few radicalized farm and professional groups) played in shaping the New Deal. While the "labor constraint" analysis that is part of the static theory of industrial partisan preference does not pretend to explain surges in labor militancy (note that the model says nothing at all about why these occur), its implicit cost-benefit framework allows one to understand—indeed, anticipate—differential responses to these challenges by various industries. It thereby becomes a formal way of integrating independent initiatives by labor, such as those well described in Piven and Cloward's *Poor People's Movements*, into a more complex model of divisions within the business community.[114]

Also, of course, the analysis indicates the inadequacy of traditional approaches to the politics of business. To understand the New Deal, I have argued, one must thrust aside the hoary models of "big vs. small" business (or "monopoly vs. competitive" capital). One has to recognize that related but distinct lines of cleavage ultimately divided big business in that period: the division between labor- and capital-intensive industries on one hand, and between nationalists and internationalists on the other. And the financial system's sometimes very complex effects on political coalitions have to be elucidated in detail, as one must also be wary of the sometimes dramatic effects of big swings in national income.

114. Francis Fox Piven and Richard Cloward, *Poor People's Movements* (New York: Vintage, 1976).

Finally, this study has implications for many working procedures in contemporary politics. First, it should suggest how much material about political events remains to be discovered in archives. The New Deal is one of the most extensively discussed phenomena in American history. Yet plenty of gaps have remained about who exactly did what precisely when. When these gaps begin to be filled in, quite a different picture emerges of what once seemed the "facts" of legislative draftsmanship and political initiative.

Political analysis can benefit from a more thorough-going integration with economic analysis. This does not, of course, imply acceptance of the view that most people maximize income (or wealth), or that cultural factors do not importantly affect political outcomes.[115] It does demand, however, that the analyst try to trace in detail how industrial structures link to society and politics, and how factors like falling income might explain what he or she is interested in. Otherwise one is likely prematurely to invoke one of the various *dei ex machina* now fashionable in the more affluent parts of comparative politics, such as "autonomous" (which often means "inexplicable") state bureaucrats, nebulous "national" interests, or "thick descriptions" of irrelevant facts. And one will thus miss the sovereign reality of the New Deal's "Multinational Liberalism": that the decisive support for a political coalition that strongly accented "comparative advantage" came from the ranks of the comparatively advantaged.

115. See the discussion in my "Party Realignment," especially notes 44 and 45.