THE BUSINESSMAN IN THE TWENTIES:

THE TRADITIONAL VIEW

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THE TRADITIONAL VIEW

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CHAPTER I

CRITICISM IN THE TWENTIES

Criticism of the business system as it existed in the twenties did not originate with the Crash of 1929 and the ensuing Great Depression. Despite popular faith in the business system during the decade of 1919-1929 and the rise of the businessman to a position approaching hero worship, there were those who for various reasons doubted the goals and methods of the economy, the businessman's leadership, and even the cultural dominance of the business ethic. There is much to justify the claims of some writers that the American civilization of the 1920's was a businessman's civilization and that the faith of most people in the eventual rewards of the business system was sincere and widespread. Yet, as the critics maintained, there were also reasons to doubt the strength of the economy and the reliance of the society upon the businessmen and their ideas for the maintenance and progress of that economic strength.[1]

These critics were men of varied backgrounds and professional callings, coming as they did from the remnants of the pre-war radical labor unions, theology, academic areas

[1]Frederick Lewis Allen, Only Yesterday (New York, 1931), p. 133; James Truslow Adams, Our Business Civilization (New York, 1929), p. 10.

such as history and economics, and journalism. Their criticisms were as varied as their backgrounds, and the solutions to problems that they proposed did not reflect any conscious agreement about philosophy, ideology or method of change. What they did seem to agree on, however, was that in the business system of the 1920's there were faults that the business leadership was either failing or refusing to recognize, and that the stability of the nation was endangered by this circumstance.

Even though the critics differed widely in their opinions and proposals, there were certain problem areas which consistently attracted their attention. Morality and the question of values encouraged by the business system concerned those who were most critical of the dominant materialism of the decade which at times seemed to leave little room for ideals of democracy or the civil liberties of the individual. A more pragmatic question absorbed the attention of others. The problems of adequate control over the economy and the establishment of economic goals and techniques more in tune with the twentieth century seemed of utmost importance to them. These more practical-minded critics did not fail to see the relationship between man's economic life and his civil liberties in a democracy. Actually, they were very concerned with the individual and his freedom, but they dealt more with concrete proposals for change within or without the system than with generalities in pointing out its faults. And, lastly, a most important area of concern for the critics was man's happiness in the machine age. How did man maintain his individuality and purpose with his life in all of its aspects influenced by the industrial revolution and its resulting organization of enterprise so that there was a greater reliance upon machinery and subordination of human effort to the requirements of the machine?

The ideas of these critics show that the business system of the twenties had its skeptics. They also influenced the writings of scholars during the Great Depression who re-evaluated the business system of the twenties. It is necessary, therefore, for an analysis of scholarly opinion of the business system and the businessman in the 1920's throughout later decades, to present some of these critics and briefly review the substance of their arguments.

Among those writers of the twenties who worried over the morality of the business system and the values that it encouraged in the society, James Truslow Adams stood very prominent. A member of an American family which had given the nation some of its most distinguished statesmen and writers, Adams continued the family's traditional concern for the nation and its people. What most bothered him was the replacement of ideals with a material scale of values and an unhealthy admiration of those men who were most responsible for the material growth and progress of the nation. And because the people had chosen to pursue the material rewards of modern civilization and exalt those men who guaranteed those rewards, the civil liberties of individuals, and even the democratic ideals that gave expression to the human spirit, were often disregarded whenever a choice arose between prosperity and personal freedom.[2]

Adams felt that he was justified in pointing out the materialism in the 1920's. Evidence could be found by simply looking at the type of leadership chosen by the electorate. America, Adams said, valued few of the ancient channels through which a man rose to distinction. In this country men of letters, diplomacy, the clergy or politics were less revered than those who made money. The greater success one had in money-making, the greater would be his public praise. Since the most fruitful area for making money was business, our heroes, then, were businessmen. That the businessman was often elected to office or that at least his desires were represented in government is a characteristic of the twenties that Adams was safe in asserting.[3]

This high degree of trust that the nation placed in the businessman and the ability of the business system to provide for the wants and desires of the people had its

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[2]James Truslow Adams, The Tempo of Modern Life (New York, 1931), p. 42.

[3]Adams, Our Business Civilization, pp. 14-15; Charles Norman Fay, Business in Politics (Cambridge, 1926), p. ix; William Allen White, Politics: The Citizen's Business (New York, 1924), pp. 43-44.

shortcomings, and it was even foreseeable that this trust could prove harmful to the material yearnings of the nation as it evidently already had to the freedom of the individual. The businessman, Adams wrote, had as his sole purpose for any business venture the production of a profit. Regardless of claims that the essential role of business was public benefit, the businessman could be counted on to abandon any enterprise benefiting the public if it did not prove profitable. The progress that people were concerned about was dependent upon these businessmen who, in order to insure progress, had continually to sell new articles by creating new desires. Progress in this context always had to be material progress and had to be profitable to the businessman. Viewed from the business standpoint, the people not only had to buy the products, but also regiment their lives around the production of them. The desire for profits, then, could only be satisfied by a materialistic society; this degree of materialism existed only where the people accepted an attitude toward life embracing more than anything else a high regard for the ethics, goals and methods of their material benefactors.[4]

Material gain, the purpose of such devotion to the business system, was not as certain as the public commonly

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[4] Adams, Our Business Civilization, pp. 17-18, 28; "Log of Organized Business," Nation's Business, XI, Part I (January, 1923), 69.

believed. Adams had no quarrel with the increased production of "things" and the comfort that they could potentially bring to the society, but their steady multiplication and the concurrent imperative to buy them, a factor necessary to the businessman's profit, would add heavily to the burden of the man who had to pay for them in order to maintain his family at the ever increasing "American Standard" of living. Thus while the availability of products increased, the individual's ability to enjoy them diminished. This buying imperative forced a change in values to the extent that the cost of an article would be of more importance than its quality. Not only would the consumer be induced to abandon the virtues of thrift and qualitative judgement as the price for insuring a rapid turnover in merchant inventories, but the cost of living aided by the purely material urge to stay abreast of one's peers in the possession of "things" would increase more rapidly than wages, and the consequences would be an increasing inability to own those products which served as the original intention for supporting the business system. Add to this inability to buy the consideration that the buying imperative carried with it a production imperative with a disproportionate emphasis upon worker efficiency, and the use of leisure time for man's enjoyment of his material possessions becomes detrimental to the productive capacity of the economy. In a society where maximum production and efficiency are considered a social norm, leisure would be viewed as a waste if not used simply as a rest period between work hours. The use of leisure time for the development of intellectual ability and the other non-job requirements of the human personality would pose a threat to the production-oriented society. Adams believed that so much devotion to the business system and its leadership would, in the long run, actually deprive the individual of any substantial enjoyment of the material rewards that he might have hoped for in supporting the system.[5]

More alarming to Adams than the illusion of material gain was the willing sacrifice of individual freedom in American society in preference for this illusion. Two general factors, the development of the eighteenth century political philosophy which stated that there is goodness and wisdom in the mass of men and the promise of material blessings coming from the industrial revolution of the nineteenth century, had created additional illusions in the twentieth century concerning liberty, justice and a scale of values. First, we had deified the "Voice of the People" and assumed that they "will know and strive for what is best for themselves in the long run; that they will be jealous guardians of their own liberties." Second, we had decided that liberty could only be retained by having a particular form of government, and, thirdly, "that a satisfying and civilized life can be based upon a material scale of values."

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[5]Adams, Our Business Civilization, pp. 20-23, 39-47.

Adams believed that these three illusions had been accepted as immutable truth by the American people and that by doing so the personal liberties of speech and thought had been denied, ironically, in the name of preserving them.[6]

These illusions had caused us to direct our allegiance toward the form of government rather than its substance. In Adams' mind it seemed to follow that since the society's main concern was the protection of material prosperity, the task of running the government would go to those men who could best perform that function for society. Thus a trend in modern society was that of replacing liberty with the concept of prosperity. And in such cases where "personal freedom and initiative have to be balanced against the prosperity of the moment, prosperity wins." The one liberty that was still valued, however, was the liberty to exploit while those freedoms of thought and speech had "become pale and unreal ghosts, academic questions of no interest to the practical man." Furthermore, Adams reminded his readers, because of our material scale of values we must take care that the machinery of production did not falter and that our personal place in that machinery remained secure. Fear, then, made us adhere to a form of society that when necessary deserted individual liberties in order to remain intact. Fear of a loss in income, or a job, or a drop in

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[6]Adams, Tempo of Modern Life, p. 311.

material abundance, while coinciding with values that place material acquisition as paramount, did not preserve the individual freedoms that Adams understood to be the basis of American society. And translated into the type of government required by this fear, Adams found that whereas in reality human life changed and society followed new patterns while the form so highly revered remained the same, our illusions did not allow us to alter the form of government without believing that we were altering the substance, the very nature of our liberties.[7]

What supposedly had been a sacred and most essential ingredient of American society, that of personal civil liberties, had been pushed to the background out of preference for material security, a material security resting upon the same vocabulary as previously was used in describing civil liberties but without the substance. The people had placed as trustees of this security a group of businessmen in whom they perceived an aura of virtue readily verified by the simple fact that these business leaders had succeeded in making money. It was of little use, Adams lamented, to rely upon this new aristocracy of businessmen to protect civil liberties. Focused as their attentions were upon profits, these aristocrats viewed the people as workers and consumers "and the more docile and less insistent they [were] upon any

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[7] _Ibid._, pp. 42, 311, 318-324.

liberties, the better. Machine-like efficiency in unlimited supply [was] what the employer [demanded]." To Adams, after all, these great businessmen, regardless of their beneficent contributions to charity, had shown that their real interests lay in protecting their own personal stake in society and that they cared very little for the abstract or real personal liberties of others.[8]

Critics such as L. M. Pape pointed out that Adams argued against the business system and its destruction of liberty without really believing in democracy. Adams' values were those of his ancestors and fellow members of the leisure class, and before he could criticize the people for serving business and thus forsaking individual liberties he first had to describe the concept of a democracy in which his aristocratic leanings would be compatible with the people and their civil liberties. While it was true that Adams questioned the people's ability to make good on the promises of democracy where prosperity was also concerned, Adams' aristocratic background and the possibility of his reacting negatively to the business leadership because of its threat to his class status did not necessarily negate the substance of his arguments. Concern for more than a rivalry between the "ins" and the "outs" in society served to give Adams' critique a respectability that reviewers such

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[8] Ibid., pp. 317-318.

as Pape failed to see. At the core of his hostility to the business system was Adams' disgust over the destruction of values that contributed to an orderly, humane and qualitative life for all of the nation's people, aristocrat or plebeian.[9]

This hard core of resentment fed upon Adams' belief that by adopting the business system and its ethics as the basis of our society we had rejected civilization in the Western sense of the word. The training for short views, ignoring future results beyond the expected immediate profit of an act, "subordinating to the thought of profit all of the larger social implications of action, [were] among the characteristics of business as business that [did] not auger well for placing the supreme control of the entire national civilization in business hands." The businessman creates only things that result from ideas; he does not create ideas. To base a society on what the businessman creates is to destroy the creation of ideas, and it was this abandonment of the heritage of ideas coming from Western civilization that Adams found himself unable to respect in the people or their business leaders.[10]

Ideals, quality instead of quantity, values based upon "what derives from the best of our whole nature and the

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[9]L. M. Pape, review of The Tempo of Modern Life, by James Truslow Adams, in the Annals of the American Academy, January, 1932, p. 178; Adams, Tempo of Modern Life, p. 42.

[10]Adams, Our Business Civilization, pp. 29-31.

consideration of our whole lives" were the goals worthy of a nation's allegiance. Rather than a total emphasis upon the economic aspect of man's nature and the development of an ethical system based upon economic desires, man should move away from such a determinism and assert his own ability to judge life and establish values encompassing all the varied aspects of his being. This was not the case in the business system, for just as the business leaders followed the voices of the great business prophets, gathered in conventions with others of kindred interests to marvel at the wisdom embodied in the lives and words of industrial saints such as Morgan and Ford, so did the people place the ultimate responsibility for the human condition in some mysterious realm where economic doctrine and its anointed earthly spokesmen dictated values which required strict obedience. In this abdication the nation had reflected a lack of confidence in man's ability to influence his individual or collective course in history. At the center of this devotion to the business system and the desertion of ideals in favor of material values lay the acceptance of an economic determinism whose insidious nature, Adams believed, revealed itself in the growing social imperative to buy "things," supposedly to insure progress, but more accurately, to feed the growing desire for security by a society terribly afraid of self-reliance.[11]

Values such as thrift, a respect for quality and self-sacrificing service to society had been replaced and even denounced by spokesmen of the new age in America. Thrift was unimportant where the society promoted the buying imperative, and as Adams considered the return on investments and savings compared with the continuous increase in the cost of living, the virtue of saving seemed ridiculous. Quality gave ground to the pretense of solidity. "The man who expects to move every year cares for nothing more than that the roof will not fall until he gets out, provided the appearance [of his home] is attractive." A bank looked sound because of the show of "marble and bronze in its banking room to impress the depositor," rather than a statement of sound assets. With such emphasis on profit and utility the professional man thought more about where his services would bring the most money rather than where he would do the most good, and in the case of doctors, lawyers and teachers, this attitude would certainly retard the society's qualitative development. Artistic endeavors, too, were judged by their marketability leading Adams to believe that the works of Keats, had Keats written in the twenties,

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[11]Adams, Tempo of Modern Life, pp. 25, 31; James Truslow Adams, "Historic Determinism and the Individual," The Atlantic Monthly, CXXXIV (October, 1924), 510-519.

would be considered of less value than a cheap but widely circulated magazine.[12]

Adams, then, indicted the business system, its leadership and the mass of society for their apparent willingness to abdicate their democratic heritage in favor of material security. Also included in this charge was the warning that the American society of the twenties with its materialistic bias seemed to be forsaking a humane, spiritual and moral scale of values for criteria which eventually would produce nothing "but a muddle and chaos which will drown our human personalities in a dehumanized whirl of production and consumption of things without human value."[13]

Adams was joined in his concern for the American society in the 1920's by Reinhold Niebuhr, a theologian just

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[12]Adams, Tempo of Modern Life, pp. 43-44; Our Business Civilization, pp. 24-27, 45-46; Perhaps Huger Elliot's article, "The Place of Beauty in the Business World," Annals of the American Academy, CXV (September, 1924), 52-53, 55-56, reflects the attitude toward beauty which most irritated Adams. Elliot wrote of the lack of interest in art within the society and voiced his own concern for what he thought to be a great loss of heritage. But whereas Adams felt that business was the great vulgarizer, Elliot believed that artistic appreciation was being revived by the business world. Businessmen were beginning to realize the value of beauty. Advertising, for example, realized that beauty paid. It was art's asset to business and the utilitarian virtue of art that caused businessmen, more than any other social or economic group, to " "foster art in the community." " Adams would not have been relieved by Elliot's argument. For Adams, the value of art had very little to do with its potential for aiding the profit motive.

[13]Adams, Tempo of Modern Life, p. 31.

beginning a distinguished career. In his article for The Atlantic Monthly, "Puritanism and Prosperity" (June, 1926), Niebuhr concerned himself with the same materialism bothering Adams but gave more attention to the religious ancestry of American capitalism and the business ethic. Where Adams felt America's materialism was a departure from our European heritage Niebuhr concluded that American society with its own brand of capitalism was, perhaps, Puritanism carried to its logical but extreme conclusion.[14]

The Protestant Reformation had begun as an effort to lift man's secular activities to a state of social and religious equality with the higher ethical standards that had previously been the exclusive possession of monastics. Niebuhr noted that the consequences of this movement brought social prestige to the daily activities of the businessman under the "sanctity of all work" doctrine. This allowed for a higher type of honesty in business dealings as well as the possibility for the individual "to give himself completely to commercial pursuits without diminution of social prestige or of moral self-respect." In removing the old restraints on secular business enterprises and giving them a nod of moral sanction there also resulted a *de facto* approval of secular motives including profit-seeking, a practice earlier condemned by the church but now considered morally

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[14]Reinhold Niebuhr, "Puritanism and Prosperity," *The Atlantic Monthly*, CXXXVII (June, 1926), 724.

respectable by the Protestants. Once united with the Hebraic idea that wealth proved the virtue of a man this new freedom for economic ventures led to the belief that any evils existing within the commercial life resided not in profit-seeking, the goal of transactions, but in the details of the transaction itself.[15]

The Protestant motif represented an attempt to unify the higher ideals of religion with the secular life of man. This united the material and the spiritual world by making the tasks in everyday life a form of worship. Puritanism overemphasized this secularism begun by Protestantism, but while the Puritans remained in Europe they were limited by the residual effects of the ancient restrictions upon secular activity. In America, however, Puritanism grew in an environment that lacked this restraint. "Completely emancipated from these ancient scruples against business enterprise," wrote Niebuhr, "we have been able to give ourselves to commercial and industrial tasks with a passion unknown to Europe." Yet Niebuhr went on to say that this was not all bad since "the sanctification of secular tasks is certainly not wrong in itself." What has created the moral limitations in the United States has been the parallel "sanctification of secular motives as well as secular tasks." Furthermore, "our Puritan virtues have lifted us to power and privilege,

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[15]Ibid., pp. 723-724.

but they lack the social imagination to guide us in the use of our power, and they are wanting in the cultural assets to prompt us to a right use of our privilege. Our Babbitry is in reality Puritanism gone to seed."[16]

Along with Adams, Niebuhr recognized that our political and moral energy had been directed toward the achievement of material goals and the establishment of material values. Our concentration upon such ends, while increasing our wealth, had not developed the high degree of social and moral intelligence needed to control the complexity of our economic creation. At a time when creative moral and social intelligence was needed in the world, America was unable to provide it. Although we had become industrial experts, we had remained political and social novices whose insistence upon a "businesslike settlement" to problems only showed that we were incapable of dealing with "those complex and illusive factors with which politics deals and with which we, in our political simplicity of mind, are so impatient."[17]

What Adams and Niebuhr saw in the society of the twenties ran counter to their moral senses: the moral concern of men whose training and values placed the individual as the most important ingredient in any social order. They could not tolerate a society where the people appeared only as pawns subject to the control of harshly authoritarian

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[16] Ibid., p. 724.

[17] Ibid., pp. 721-722.

economic laws allowing no room for man's spiritual and cultural development other than along lines commensurate with the underlying materialism of the economic order. They had not rejected industry or businessmen or the industrial revolution out of hand. They had, however, strongly refused to accept the values of the modern industrial society in so far as those values were considered by the nation as the only values worth holding. They called for a re-instatement of ideals that included but did not stem from material values. Indeed, they asked only that in the industrial society some provision be made for the man whose goals and ideals transcended the simple quest for material prosperity.

A somewhat different concern for the society came from an economist whose tone and approach to the business system made him more than just a critic. Thorstein Veblen was a revolutionary whose view of the economy rejected any of the classical definitions as well as all revisions stemming from but still within the classical school of economic thought. Veblen, from his earliest to his latest writings, was not attempting to set modern economic thought back on the track from which it had derailed. Instead, he insisted that the track itself was wrong. Essentially, "what Veblen was trying to suggest. . .was not only a different economics, but a different conception of the economy itself."[18] Earlier economists, Veblen wrote, "have by tradition and force of commercial pressure, habitually gone in for a theoretical inquiry into the ways and means of salesmanship, financial traffic, and the distribution of income and property, rather than a study of the industrial system considered as a ways and means of producing goods and services." There was, then, a contradiction in terms when economists and businessmen used the words "business" and "investment" to describe "industry" and "production."[19]

These words were part of the vocabulary of the existing business system. It was Veblen's contention that the system of the twenties had no relationship to the real goals of an economic system. The businessman's "economy" served as a system of production whose benefits were the exclusive property of that system's owners. The purpose of economic life, its industrial and mechanical bases and the businesslike management of that economic life were directed toward furthering that exclusive benefit. While in Veblen's mind the true function of the economy with all of its apparatus

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[18] Joseph Dorfman and others, Institutional Economics: Veblen, Commons, and Mitchell Reconsidered (Berkeley, 1963), p. 47.

[19] Thorstein Veblen, "Bolshevism and the Vested Interests in America: III. A Memorandum on a Practicable Soviet of Technicians," The Dial, LXVII (November 1, 1919), 375, hereafter cited as "Bolshevism: III."

was to satisfy the society's need for food, clothing and other necessities, the management of the economy by businessmen using business methods served to thwart any ability of the economy to fulfill its true function.[20]

Essentially, then, the businessman and his system of economic management were at cross purposes with the nature of the real economy. But, and Veblen emphasized this theme, the days of the businessman and his selfish control of the economy were numbered. What the business leadership imagined they controlled was quite different from that which actually existed. The industrial complex was dependent upon the mechanics of its operations. Productive industry had at its core the highly complex and technical mechanical industry whose technology was dispassionate and which had as its end the simple goal of serving human needs "without fear or favor or respect of persons, prerogatives, or politics." As it had developed this mechanical industry was so finely balanced and interrelated that "any defect or hindrance in its technical administration, any intrusion of non-technical considerations" would upset the system's balance and destroy the efforts and skills of the technicians who theretofore had been exploited by the businessman. The functioning of

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[20]Thorstein Veblen, "Bolshevism and the Vested Interests in America: II. On the Circumstances Which Make for a Change," The Dial, LXVII (October 18, 1919), 342, 344, hereafter cited as "Bolshevism: II;" Dorfman, and others, Institutional Economics, p. 61.

this productive industry was more and more dependent upon those technical experts who understood it, much more so than the businessman who exploited it but knew very little about it.[21]

The businessman was becoming useless, obsolete in the machine age because his management methods and decision-making criteria were based upon the profit motive which utilized production and employment restriction as methods of controlling prices and profits. Such management ran counter to the real purposes of the economic machinery and its technicians, that of providing maximum production and full employment. The irrelevancy of such methods numbered the days of the business leadership since, as the technological nature of industry became more interdependent, the accepted practices of businessmen would cause maladjustments that would reveal the businessman's inability to handle the economy. The resulting catastrophe would so discredit him that control of the economy would fall naturally to those who possessed the requisite knowledge for providing the needs of the economic community.[22]

These changes in economic control were not to be expected in the near future. Veblen cautioned the revolutionary who cried for immediate change about a useless

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[21] Veblen, "Bolshevism: II," p. 345.

[22] Ibid., pp. 343-344; "Bolshevism: III," pp. 373-374.

overanxiety; he cautioned the "Vested Interests" who feared the radical ideas of change about a needless paranoia. The evils that would inevitably result from business leadership were not obvious enough to bring about the change, just yet. That change could come about only after the "Vested Interests," through their own ignorance, had destroyed the public support which they enjoyed in the 1920's. The nature of industrial societies with established and productive industrial complexes was such that the values of the society were centered in material concerns. Instead of abstractions such as freedom of speech and press, the people judged the worth of the status quo by its ability to provide for their material needs and desires. In such a situation Veblen believed that the consideration of whether to revolt or not depended not upon the degree of repression of civil liberties, but upon the "Vested Interests'" ability to satisfy the material demands of society. In addition to this prerequisite for revolution Veblen said that no revolution could be successful unless the new order promised to satisfy material demands at least as well as the old order had previously done. Conversely, the defenders of the status quo, in order to thwart any dangerous threat to their security, need only to make slight adjustments in production and prices in order to give the illusion of meeting material demands while still maintaining a "reasonably profitable level of prices."[23]

Veblen's note of caution to the revolutionary and the "Vested Interests" by no means revealed a lack of conviction that the change in economic control would take place. The faults that would discredit the businessman were an innate characteristic of the business psychology and, therefore, the business system; they were an unavoidable self-destruct mechanism set to go off only when the technicians, that most essential element of industrial society, were ready to assume leadership and the people were discontented enough from material deprivation to oust the businessman and support the technicians. Attempts at change before these conditions were ready would fail. The nature of change was such that man could only prepare for it, not direct it.[24]

Contrasted with Adams' concern for liberties and the sacrifice to materialism of the individual will, the thoughts of Veblen seem cold, austere, removed from any concern for man's spiritual or cultural side. This, perhaps, is a too-hasty conclusion. Underneath his presentation of change as mechanical and operating independently of human will there

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[23]Thorstein Veblen, "Bolshevism and the Vested Interests in America: I. On the Danger of a Revolutionary Overturn," The Dial, LXVII (October 4, 1919), 296-301, hereafter cited as "Bolshevism: I;" "Bolshevism: II," p. 342.

[24]Veblen, "Bolshevism: III," p. 376.

rested a new definition of an economy; a definition more suited to human circumstances. Veblen's contribution was not the accuracy of his predictions but the concept which presented the economy as a "system of related activities by which the people of a community get their living." This system not only included the body of physical equipment so essential to modern industry but the "complex network of personal relations reinforced by custom, ritual, sentiment and dogma."[25]

Through his emphasis on technicians in control of a technologically based economy Veblen pointed toward an economic science free of mysticism and one which contained a little-understood but self-regulating modular concept of economic life preferring and utilizing the scientific tools and attitude of an engineer. Appreciation for the unique character of this concept increases when one realizes that even as late as the 1920's such basic economic tools as the Federal Reserve index of industrial production and the GNP, "which today everyone rattles off as if it came over on the Mayflower," were non-existent. "There was," in reality, "no statistical guage of the performance of the economy." For Veblen to indict businessmen for mismanaging an economy that could supply the entire nation with material necessities were it not for business ignorance and the profit motive was

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[25]Dorfman, and others, Institutional Economics, p. 61.

indicative of his concern for the social results of the business system regardless of whether, like Adams, he lamented the passing of the old virtues.[26]

Veblen didnot speak for the entire community of economists when he abandoned any possibility of those changes needed by society being attained within the existing business system. Other economists, though highly critical of business practices and motives, leaned toward adjustments within the system rather than its replacement. Two such economists and critics of the business system during the twenties were John R. Commons and John M. Clark. Both of these men agreed with Veblen that the economy was much more than just the mechanism by which the buying and selling of goods operated. They both shared the Veblenian view of an economy encompassing social as well as economic relationships between people. They also went along with Veblen's critique of the system because of the seemingly inherent instabilities within business management and motivation. Dealing with problems of

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[26]*Ibid*., p. 59; Veblen, "Bolshevism: III," p. 375; As for business mismanagement, Veblen, even though he coldly dismisses the businessman's value in the new order, allows that the businessman's earlier efforts were often serious and concerned attempts to make things function properly. However, as soon " "as the controlling purpose of industry shifts from the footing of profits on absentee investment to that of a serviceable output of goods," " these businessmen will be unable to conceive of industry that operates " "not on salesmanship and earnings, but on tangible performance and tangible benefit to the community at large," " *Ibid*.

unemployment, static wages and increasing prices, wastage of natural resources, to mention only a few among the myriad of modern complications they saw in the industrial society, these men set about searching for the best possible form of economic control useful in meeting the nation's economic needs.[27]

Such a search had to involve an evaluation of the existing method of economic control, a control that Clark described as the "individualistic theory." This theory maintained that economic life worked under limitations imposed by nature which served to "harness private greed." Such a natural harness worked to guide the businessman to labor in the public interest, and, the individualist maintained, the essential nature of individualism was the public interest. The individualist believed that he spoke of laissez faire when he referred to his theory. Individualism and laissez faire described that economic system where no controls over the economy were exerted by man, nor should be, but where control was exerted only by natural law. Under such a system economic problems were beyond the influence of human will, therefore, it was an exercise in futility to exert energy in trying to control business cycles, depressions, or other symptoms of economic distress characteristic of American economic life in the fifty years or so prior to the

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[27]Dorfman and others, Institutional Economics, pp. 49-50.

twenties. By assuming that there were no man-made controls in the economy Clark said that the individualist made his greatest error. The basic changes in business organization since the beginning of the industrial age were forms of man-made controls even though the individualist protested that they were nothing more than "marvelous and elaborate forms" which did not "obscure the simple and elemental character of the basis of it all."[28]

It was clear to both Commons and Clark that the individualist knew very little about the nature of twentieth-century economics if he seriously believed that man did not exert some form of control over the economy. If the individualist was serious, then he was strapped to an indefensible and outdated position. The "marvelous and elaborate forms" that were supposedly unrelated to any regulatory power were in fact just the opposite. Holding companies and the like were strong agents of economic control and the individualist's refusal to recognize them as such only proved his inability to understand man's economic creations.[29]

Had such ignorance not affected the lives of others in the society the irrelevance of the individualist's notions

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[28] John M. Clark, Social Control of Business (Chicago, 1926), pp. 32-33, 36-45; John R. Commons, and others, Can Business Prevent Unemployment? (New York, 1925), p. 96.

[29] Clark, Social Control of Business, pp. 14-15, 32; Commons, and others, Can Business Prevent Unemployment?, pp. 96-98.

would have brought less response from Commons and Clark. But what businessmen believed did effect others, for businessmen self-righteously accused labor of plotting to destroy free enterprise and individual initiative when it refused benevolent business leadership. Clark refuted such arguments as mere superficial analysis and pointed to what he believed was the real source of worker distress. The basis for strikes was not simply a desire for higher wages and better working conditions because strikes continued after such demands had been met. "Strikes," Clark said, "[were] rooted in the character of the machine industry, in its impersonal organization and wide separation between workers, managers and property interests." What pride could a worker take in his efforts when his labor was so merged with the whole complex as to make its value indistinguishable from the work of others? The worker felt no contact, no responsibility for the society since his contribution to it was so vague as to leave him without a clear picture of having produced something of value to himself or society. Commons, too, realized that workers were unable to fathom the meaning of the complex industrial system of which they were a part. In considering what the employer could do to decrease unemployment Commons pointed directly to businessmen on whom he laid the blame for causing it. The employee was unable "to influence the situation out of which unemployment [arose]," and the businessman should realize that he had the social responsibility of using every means at his disposal in correcting the abuses in the "enormous industrial structure within which a large part of our population spend their lives."[30]

Businessmen were passing the buck, laying the blame for economic and social ills on the workings of a "higher law," and economists such as Commons and Clark sought to break this escapist economic illusion by insisting upon the effectiveness of exercising human will through planning, the use of data, and other new tools of economic science, all the while repeating that such planning could be handled by the businessmen themselves without the turmoil of revolution, the possible injustices of a clumsy governmental bureaucracy or the abandonment of the profit incentive. Business profit and a business system with a social conscience could coexist, and, in fact, the results of such a merger would be a source of increased profits to business.[31]

Businessmen were selling themselves short in not taking the responsibility that fell to them as a result of their commanding position in the industrial age. At a time when man's economic and social interests were so interdependent and a new, more courageous social leadership was needed,

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[30] Clark, Social Control of Business, pp. 57, 61; John R. Commons, History of Labor in the United States, III (New York, 1935), 295; Commons, and others, Can Business Prevent Unemployment? pp. 3, 5-6, 66-72.

[31] Ibid., pp. 3, 57-65, 73, 81-83.

economic leaders, those quite able to assume this new leadership role, relied upon an eighteenth-century philosophy to describe a twentieth-century existence; and in the cases where circumstances failed to fit the axioms of this philosophy, the circumstances were forced to conform or were ignored. Yet any new form of economic control, in avoiding this absolutely unworkable reliance upon "an unchangeable law of nature," had to avoid also the lesser but equally wasteful mistake of the idealistic urge to attempt the impossible.[32]

There was little chance that the businessman would attempt the impossible. There was an equally small chance that business leadership would refrain from using the refuge inherent in appeals to an "unchangeable law of nature" concept of economic control. This was in spite of the urgings of such men as Herbert Hoover that businessmen use economic science and planning in the business decision-making process; in spite of the attempt of some businessmen to fashion a high wage and full employment philosophy involving a consumer-oriented economy more attuned to social needs; in spite of the concern of intellectuals over the growing materialism in the American society of the twenties.

Perhaps something more than disgust with the business system prompted Veblen to believe that economic change would

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[32]Ibid., p. 3; Clark, Social Control of Business, p. 16.

come about only when the complete destruction of public confidence in the business leadership resulted from a catastrophic occurrence involving business mismanagement. Although Commons disagreed with Veblen over the necessity of such an event and insisted that free will, not Veblen's determinism, was the key to progress, Commons' thesis rested upon the businessman's acceptance of his role in society and, as Commons freely admitted, the businessman's willingness to experiment with new ideas and methods. Commons' and Clark's proposals for change, as did any change in the dark picture constructed by Adams and Niebuhr, rested upon that possibility. Not only were these critic's hopes dependent upon a change in the attitudes of businessmen but they required a reversal of the public's attitudes as well. This was not the case in the twenties. Therefore, a revamping of economic leadership and social motivation would be necessary and neither of them was probable.[33]

At the bottom of these varied criticisms lay a common concern, even a puzzlement, over the nature of society in the industrial age. The machine, it seemed, stood to enslave man to a greater degree than had the more ancient threats of the elements, disease, and war. The criticism by men such

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[33]Veblen, "Bolshevism: III," p. 376; John R. Commons, Legal Foundations of Capitalism (New York, 1924), p. 376; Dorfman, and others, Institutional Economics, pp. 77-78; Commons, and others, Can Business Prevent Unemployment? pp. 57-65.

as Adams, Niebuhr, Veblen, Clark and Commons, whether dealing with the moral nature of the society or the intricate problems of effective economic control and reform, dealt either directly or indirectly with man's relationship to the machine. The society of the 1920's with its business leadership and its wonderful economic creation had mastered the technology useful in satisfying human desires, but what was more important to these men was, as Clark summarized it, the satisfaction of human needs. Satisfying his desires had so captured man's attention that his social and economic needs were ignored and man was involved in a society that reacted to the demands of the machine rather than utilizing the mechanical revolution for the betterment of the human race. The individual in American society could not, these men firmly believed, enjoy the smallest degree of freedom or even the illusion of freedom while in a condition of enslavement to a machine technology which stood to control him unless he bent that technology to human needs.[34]

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[34] Clark, Social Control of Business, pp. 52-65.

CHAPTER II

CRITICISM IN THE THIRTIES

The difficulty in being a critic of the business system in the twenties was that everyone seemed to be prospering. People were enjoying more luxuries, stook prices were rising, and aside from those few men who looked below the surface, the majority was not conscious of the subtle complexities which were working to thwart what seemed to be the most perfect of modern industrial economies. This public anxiety for more and more material prosperity was not watched by a public effort to understand the details of the economy; the technical matters were left up to the businessmen while the general population awaited the benefits. Critics in the twenties, while pointing to the inability of businessmen to shoulder this responsibility and partly describing those "subtle complexities," confronted a nation that was too enamoured with prosperity and the business society to listen.

The thirties brought different circumstances. Critics still labored over the same questions that had bothered Adams, Veblen, Commons, and others; they reviewed the ethical consequences of a society devoted to material prosperity, and, as before, tried to understand and describe the modern industrial economy. But in the thirties there was not so much public or business confidence in the earlier system. The stock market crash and the depression had given the critic a more imposing pulpit from which to speak and a larger, much more attentive audience. Business leadership, which in earlier days had been given every sort of public confidence, had, by the 1930's, convinced many people that "it had failed to lead and had given false counsel."[1]

Social and economic conditions following 1929 created more than an audience for critics of the prosperous twenties. These conditions brought new responsibilities. Since they were concerned and serious men, critics were forced to take a stronger look at the previous decade with a view toward discovering those conditions responsible for the debacle of '29 and the depression. They reaffirmed earlier beliefs in the businessman's inability to understand the structure and functioning of a modern industrial economy and generally were justified in blaming the business leadership for errors of judgement. Yet the public, that mass of people who so willingly supported the businessman's society in the twenties, received its share of the blame. To some observers the illusion of prosperity in the twenties was a social phenomenon, a product of public demand after the physical conditions for producing consumer goods had been acheived. Therefore,

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[1]Charles A. Beard, ed., America Faces the Future (Boston, 1932), p. 8.

alongside their indictments of businessmen for economic incompetency, some writers also found that the public, by insisting on prosperity, contributed to the errors made in securing that prosperity. Instead of the business leadership being forced upon the nation, it was merely a response to the public demand for the goals and ideals which business had come to represent.

If the general public in the twenties supported the business leadership, and if the obsession for material prosperity was as ingrained in the public mind as Adams, Veblen, Niebuhr, and others had thought it to be, then an assessment of blame for the results of poor economic decision-making during the decade must include more than just the businessman. William Allen White, in his biography of Calvin Coolidge, perhaps supplied a key to such an understanding of the times: Coolidge, White wrote, "is but a wraith, giving human features and evanescent flesh and blood to a dramatic moment in American history."[2]

Politics only reflected the economic reality of the decade. That economic reality was the public's desire for prosperity, for national economic growth leading to more and more consumer goods, and, as more people became aware of the money to be made on the stock market, the preservation of

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[2]William Allen White, A Puritan in Babylon: The Story of Calvin Coolidge (New York, 1938), p. 184.

conditions favorable to rising stock prices. If Coolidge had used the government's power to check the abuses of the economy and had slowed prosperity, he would have brought the wrath of the "Vested Interests" down upon himself and the G.O.P. Also, with the public so committed to prosperity, the G.O.P. would have suffered further destruction at the hands of the electorate. There was no doubt in White's mind that Coolidge knew this. However, Coolidge refused to step in and check the rising indebtedness and stock speculation frenzy of the mid-twenties because, White added, it was his nature to flow with the tide of what he thought to be the dominant forces of the time. The major force, Coolidge felt, was the public's desire for prosperity. And, along with the rest of the people, he believed in the wisdom of the captains of business and finance in dictating the ground rules for achieving that prosperity.[3]

If government represented business interests and formulated policy on the basis of business desires, it did so because the body politic had chosen prosperity as a national goal. This being the case, government and business had a natural mandate for working together. Any business takeover of government was characterized, not by a flagrant grasp of power from constituted authority, but, as one critic wrote, by "the abdication of judgement and power by

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[3]*Ibid.*, p. 346.

governmental authorities, and in the gradual acceptance of purely commercial attitudes by the general public." But, again, this same critic argued that the public's material desires were not spontaneous and were not a true expression of the public will. They were instead the creation of skillful publicity designed to orient the public mind toward a consumer goods psychology. Edward C. Aswell believed this to be the case as he looked back on the decade.[4]

As had Adams earlier, Aswell resented the trend in the twenties of measuring all things by an economic scale of values. This, he believed, led to the business dominance of the decade and a noticeable decline in the quality of national leadership. We needed leaders who would respond to problems that were not based entirely upon economics, but, instead, "the well being of trade, commerce an industry had become [in the twenties] the ultimate end of governmental policy." Coolidge, Aswell's example of the narrow and incompetent leadership bred by the business-government merger, did not understand contemporary problems. "Leadership was simply a matter of preserving the _status quo_;" and as the businessmen's president, Coolidge had no duty other than "balancing . . . the nation's books to show a profit."[5]

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[4]Edward Campbell Aswell, "Coolidge and the Do-Nothing Decade," _Forum_, LXXXIV (August, 1930), 73-74.

[5]_Ibid_., pp. 71-76.

Coolidge and the business leadership, because of their devotion to business principles honoring the achievement of success, might have been well suited for the acquisition of power. Yet, at the same time, any reluctance they might have had in using that power to change the status quo came from their devotion to those same principles. If White and Aswell disagreed over whether the nation willingly accepted the business leadership as best suited to its desire, or had to accept it because of business propaganda and governmental control, they both agreed that while Coolidge believed in the business system, its ideals and interests, and honestly felt he was aiding the nation by working in the businessman's cause, he, nevertheless, was limited by that allegiance. At a time when "super sense" was needed by the leader of the world's greatest nation, Coolidge offered only common sense; at a time when the government needed the ability to analyze contemporary economic trends and practices with a view towards their ultimate results, Coolidge and his like-minded contemporaries in business and politics could only marvel at the results of savings turning into investments, investments increasing stock prices, consumer sales increasing profits, and all of this occurring simply because the truly American virtues of thrift, savings, and earning a just reward for the invested dollar were once again, under Coolidge and the G.O.P. being given free rein.[6]

Whatever its origin, this public support of the business system could have encouraged the worst elements of business leadership to gain the upper hand, possibly helping to explain those abuses which critics later pointed out in discrediting that leadership. Such undisputed public confidence in businessmen, some critics noted, brought an even greater increase in the businessman's self-confidence. What the public had intended as a vote of confidence in the business leadership by electing Coolidge in 1924, convinced some in the economy that the financial powers had been given such a complete mandate that any sort of practice, however selfish, would be considered acceptable.

With this sort of rationale, businessmen, through word and deed, abused the public confidence they enjoyed; and critics in the thirties were willing to point out those abuses. Charles A. Beard's disgust with the business leadership was quite obvious in discussing "The Golden Glow" of the twenties in his America in Midpassage, (1939). Business, Beard said, had an open season on the American public: "seldom if ever had the 'natural forces of free enterprise' been so freely unleashed to gather in the investor's money and

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[6]White, Puritan in Babylon, pp. 128-129, 132; Aswell, "Do-Nothing Decade," pp. 74-76.

lay duties on the consumer's dollar." The government under three consecutive presidents, while occasionally giving sympathy to some need by farmers, child laborers, or veterans, always assured business of its support for "free enterprise." Beard regretted the high respect given to those who dealt with the important matters of domestic and foreign political and economic problems solely within the framework of what seemed best for American business interests.[7]

Businessmen, drinking deeply from the well of public confidence, began issuing occasional remarks about the future results of American business genius. These business prophets, wrote Edward Angly, convinced that the old business cycle of "prosperity, crisis, depression, and revival had been 'ironed out' by American business genius," believed that nothing but prosperity was left in the nation's future. As long as the people insisted upon a higher standard of living--and what man would say that he did not want more of the good things in life--the nation's prosperity was assured. Public pronouncements applauding the business system and encouraging the public to buy, work hard, and keep the faith, when augmented by easy consumer credit, served as good propaganda and motivation to the buying public. Such pronouncements became more than just an expression of confidence.

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[7]Charles A. and Mary R. Beard, America in Midpassage, Vol. III of The Rise of American Civilization (New York, 1939), pp. 13, 52-54.

Once believed by the public, they became a part of the psychology of prosperity and a necessary element in the businessman's belief that he could turn aside bad times with just a few encouraging words. Even after the depression had begun and conditions grew worse, public statements persisted to the effect that business could return prosperity if allowed to function on its own terms.[8]

Not all businessmen were content with just using words; some attempted to gain that promised future. However, the methods used left room for argument about who was to share that future. Such an instance, according to Frederick Lewis Allen, was the mysteriously sudden rise of General Motors and Radio Corporation of America stock on March 4, 1928. After having made some money in the earlier bull market of the mid-twenties, a few knowledgeable men, figuring Ford had peaked an RCA would benefit from its reorganization, began to buy massive blocks of GM and RCA stock. Allen said that they hoped to initiate a speculative boom. These men "knew their American public. It could not resist the appeal of a surging market. It had an altogether normal

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[8]Edward Angly, "Prophets Without Foresight," in Beard, America Faces the Future, pp. 59, 67-69; Beard, America in Midpassage, pp. 55-60, 67-69, 72-77.

desire to get rich quick, and it was ready to believe anything about the golden future of American business."[9]

If Allen was correct in fixing the beginning of the last bull market before the crash at the moment when GM and RCA began their sharpest gains, then the negative reaction in the thirties to such men as these who played upon the national emotions to initiate a speculative enthusiasm is more easily understood. Given the temper of the times and the tendency of the stock market to react to unpredictable stimuli, these men who so used the nation's confidence in their judgement were initiating a process that could just as easily be turned against them and the others whom they hoped would join in the buying spree. It was A. A. Berle's judgement that such attempts to control the market overlooked the basic capriciousness of emotional influences on the stock market. Just as public optimism fed the boom, public pessimism could destroy it, despite all the efforts of the same financiers to control the public attitude. Such errors of judgement that marked the deeds and optimistic but misleading words of the businessmen opened them up to widespread public and scholoarly scrutiny during the thirties and left their former reputation for economic insight in sad repair.[10]

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[9]Frederick Lewis Allen, Only Yesterday (New York, 1931), p. 246.

[10]A. A. Berle, Jr., "High Finance: Master or Servant," Yale Review, ns XXIII (September, 1933), 35-37; Thurman Arnold, "Theories About Economic Theory," Annals of the American Academy, CLXXII (March, 1934), 30.

Although Allen found room to hint of a conspiratorial element behind the speculation frenzy, he also affirmed the near universal public desire for prosperity that encouraged such actions as those involved in the GM-RCA market coup. Along with White, Allen chose Coolidge as representative of this wave of public support for business leadership. Coolidge's sincerity and his belief in the "old American copy-book maxims . . . of hard work and frugal living and piety crowned with success" appealed to something resembling an idealistic yearning in the public mind. This living example of legendary pioneer virtues brought to the modern, shining, and prosperous twenties a link with America's past pioneer spirit. Yet it was not just the man that the public wanted; it was the assurance that his character gave to the public that the day's prosperity would be maintained. Whatever the failings of his domestic and foreign policy, or his inability to see beyond the interests of business, Coolidge and his party obviously pleased the electorate. Allen still attributed Republican victory in 1928 to economic prosperity in spite of his contradictory suggestion that the public reverence for Charles Lindberg might have suggested a growing dissatisfaction with the glittering commercialism of business prosperity.[11]

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[11]Allen, Only Yesterday, pp. 151, 153-154, 183-184, 250-251.

Employing such descriptive phrases as "America Convalescent," "Coolidge Prosperity," "The Ballyhoo Years," and "Alcohol and Al Capone," Allen, in Only Yesterday (1931), probed the changing habits and currents of thinking in the twenties. But the theme of his book makes abundantly clear the importance of public support to the business-led society. "Prosperity," Allen said in summary, "is more than an economic condition; it is a state of mind." The decade's romance with prosperity represented by the public infatuation with "the Big Bull Market had been more than the climax of a business cycle; it had been the climax of a cycle in American mass thinking and mass emotion."[12]

Critics in the thirties did not resolve the question of whether or not businessmen could have achieved such prominence in the twenties had the public supported domestic reform and foreign involvement after the war instead of material prosperity. But insofar as the public supported prosperity and condoned or overlooked injudicious business practices as a necessary part of the game, critics in the thirties found some justification for adding the general public to their list of contributors to the crash and the depression.

This question of what had caused the crash and the depression, while leading some writers into a consideration of social attitudes and the public state of mind as a

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[12] Ibid., p. 281.

contributing factor, involved others in a study of the previous decade's economic structure and those "subtle complexities" which worked against the avowed goals of the businessmen who supposedly controlled it. Of course, discovering past errors in economic decision-making would hopefully point the way to recovery from the depression, and it was partly for this purpose that economists and historians of the thirties took a close look at the technical aspects of the business system in the twenties. Yet this could not be done without criticizing those practices, and, possibly, rejecting some of them as unsuitable for continued use.[13]

The stock market boom brought scrutiny of the Federal Reserve System's credit policy as well as the lending and investing habits of the great Wall Street financial houses and banks throughout the nation. Investigating the activity of stocks on a market which supposedly represented the status of the productive economy led to the study of corporations, their ownership, control, and the degree to which their actual operations corresponded to the prevailing knowledge of how they were supposed to function. And as this investigation proceeded, those who pushed it became aware that the twenties, while seemingly unproductive and static to the

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[13] Beard, America Faces the Future, p. 116.

superficial observer, had actually brought about changes dramatic enough to influence future economic thinking and practice.[14]

Both the ineffectiveness of Federal Reserve policy and the changing role of banking firms in the economy had contributed to a speculative boom that had increased stock prices to unwarranted proportions. Corporate profits in the twenties were high enough to make many large industrial concerns independent of the need for banks as a source of capital. Having lost their previous influence gained through financing industrial expansion, bankers turned to the stock market as a method of regaining that power. In the market they hoped to create a demand for financing to replace the declining one in industry. The banker-financier, armed with the increased saving deposits characteristic of the twenties, and aided by the relaxed credit policy of the Federal Reserve, staked his future on the ability of

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[14]Arnold, "Theories About Economic Theory,"pp. 34-35; Aswell, "Do-Nothing Decade," p. 71; Allen, Only Yesterday, p. 281; Beard, America Faces the Future, p. 116; "Planning Proposals of the Committee on Continuity of Business and Employment of the United States Chamber of Commerce," in Beard, America Faces the Future, p. 203; Sumner H. Slichter, Towards Stability: The Problem of Economic Balance, (New York, 1934), p. 1.

rising stock values in the market to perpetuate demand for his services.[15]

A. A. Berle contended that this changing role of the banker effected more than just a shift in the direction of finance. The investor, too, changed from one who purchased stocks as a long-term investment with a view toward earning his reward from future dividends to one interested primarily in the market value of his stock and the market's ability to continue raising prices, providing a short-term return on his investment through re-sale. The stockholder, instead of looking to the issuing corporation for investment value and repayment in dividends, looked to the stock market. Thus, the condition of the issuing corporation was of secondary importance; the main concern was the perpetuation of market price increases. Because of this shift in attention from the issuing company to the market, corporations felt less responsibility toward their investors, and, Berle continued, when faced with indebtedness simply issued new securities. As the volume of stock issues grew along with trading interest, the stock exchange grew more important. The exchange members and bankers who saw their future tied to increased sales began to encourage speculation. Ordinarily, securities had been judged as collateral for loans on the basis of the

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[15]Berle, "High Finance: Master or Servant," pp. 24-26, 28; Preston William Slosson, The Great Crusade and After, 1914-1928 (New York, 1937), pp. 179-180.

issuing company's ability to repay in fixed returns, but the market-directed investment caused banks to accept as collateral a stock's present and potential market value as a sound basis for extending a loan. The fallacy in this, Berle said, was in mistaking "a machinery of liquidity, such as the stock exchange, for an index of value." This was not a sound value index, since factors having to do with the willingness of speculators to buy stocks did not reflect any real conditions existing within the economy. The investor had not only surrendered his element of control over corporate policy in moving to a market-directed investment, but he had surrendered a fixed amount of return for a variable one.[16]

Supposedly, the Federal Reserve served to keep the availability of credit at levels that would counteract any irrational loan practices of banks so caught up in the prospect of making money from broker's loans that they forgot the wisdom of caution. However, in an analysis of Federal Reserve policy, S. E. Harris emphasized that the Board was unable to control the supply of funds providing fuel for the speculative boom. Supposedly conservative, business-like bankers exercised poor judgement by accepting securities as collateral for loans made to brokers and investors. But the Federal Reserve Board added to the problem by not stepping in early enough to discourage such practices. Harris concluded

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[16]Berle, "High Finance: Master or Servant," pp. 30-35.

that the Board members had lost their chance to control the nation's credit by having allowed a relaxed credit policy from 1922 to 1928.

An easy credit policy, while pleasing those most interested in the rising stock values, had reduced the effectiveness of raising the discount rate at a later date in two ways: first, it had stimulated investment to the point where corporations issued new securities far above their real capital needs, creating corporate surpluses that were later used to finance speculation, and putting a money supply in the hands of brokers outside the Federal Reserve's control; secondly, it had encouraged speculation to the point that when interest rates did rise, they did not deter the demand for loans since the investor expected profits large enough to make palatable even the highest of interest rates. When the Board finally did raise the rate, it was too late to prevent the flow of non-bank funds into the money market, and not drastic enough to discourage borrowing from banks.[17]

Bankers urged a permissive credit environment and promoted a shift in investor emphasis to short-term, market-directed investment in their search for new business. These practices brought disaster to the banking community after the crash. Bankers, in lending money for speculation, helped to stimulate

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[17] S. E. Harris, Twenty Years of Federal Reserve Policy, II (Cambridge, 1933), 476, 488-489, 490-491.

that speculation by promoting securities and stocks. It developed, then, that a banker's success was closely related to the confidence the investor placed in his ability to promote stocks. After the crash this confidence disappeared, and along with it the banker's reputation of being essential to the economy. Promoting speculation had become a necessity to the maintenance of the banker's influence, and with confident phrases that dispelled all rumors of inflated stock values, he claimed that market prices reflected the basic strength of the productive and distributive elements in the economy. After the crash, however, these same "soothsayers in high finance," Beard wrote in Midpassage, claimed that the downward turn in stock prices had little relation to the "production and distribution of commodities." The banker had changed his role in the economy but had failed to grasp the effects that this change might bring. As a result, critics in the thirties considered him a poor risk in planning recovery from the depression.[18]

Beard had repudiated earlier business practices as harmfully affecting production and employment. He believed that the terrible effects of such flagrant mis-management could only be avoided through economic planning. It was not a question of whether or not to plan. Since the technological

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[18]Berle, "High Finance: Master or Servant," p. 28; Angly, "Prophets Without Foresight," pp. 57-69; Beard, America in Midpassage, pp. 67-69.

economy created an interdependence between various aspects of the economy, and since technology did not respond well to human "rule-of-thumb procedure," the planned economy was an inevitable product of a technological society. Given the general incompetence of traditional business leadership, as presented by the previous decade, Beard believed that planning was the only acceptable alternative to the business "soothsayers." The only remaining question was the nature of the planning institution.[19]

Beard, Harris, Berle, among many, criticized the abusive business practices of the twenties but realized that they stemmed from more than simple greed or a conscious conspiracy against the unsuspecting consumer and speculator. The misconceptions of businessmen about the nation's economic structure and its functioning were more fundamental. Thurman Arnold, irritated over the retention of ideas that bore no relationship to the economy but were nevertheless being used to damn the New Deal attempts at recovery, wrote of these misconceptions as being a "Folklore." They were erroneous but still defended by the society. Such critics as Arnold concluded that our refusal to redefine economic concepts in the light of twentieth-century developments had proved to be

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[19]Beard, America Faces the Future, pp. 117-118.

the major error of business and government during the past several years.[20]

John R. Commons continued to strive for greater validity in economics by carrying on with "institutional" economic concepts. Modern enterprises were "collective action in control, liberation, and expansion of individual action" instead of being a product of "rugged individualism" or representing the work and money of only one or a few men. Commons was joined in his efforts at redefinition by Berle and Gardiner C. Means, who agreed with this collective ingredient in the corporation and the economy.[21]

In The Modern Corporation and Private Property (1936), Berle and Means found traditional property concepts to be inadequate when applied to the modern corporation. Based upon Adam Smith's eighteenth-century description of an economy, traditional theory envisioned the ownership and control of property in the same hands. Furthermore, the general economic environment was one of small concerns competing in a highly competitive market place. The prospect for profits drove the owner-manager to produce more efficiently in order to maintain and expand profits. This traditional description broke down when applied to the modern

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[20]Thurman Arnold, The Folklore of Capitalism (New Haven, 1937), pp. 165-206.

[21]John R. Commons, "Institutional Economics," American Economic Review, XXI (December, 1931), 649.

corporation, since ownership was often diffused among thousands of stockholders and control often resided in those who had little or no monetary stake in the concern. Modern corporate wealth was the result of more than investment activity; the efforts of management, workers, the community at large went into the development of that wealth. Nor was competition the rule among large corporations, since it was deemed harmful to profits. Modern corporations and the economy were the products of collectivized effort, some of which was not financial effort but that of talent and labor.[22]

Prior adherence to traditional theory had over-emphasized rewarding those who financed corporations. Thus the rights and interests of stockholders had been placed before those of the larger economic community. And among the stockholders, those few men who controlled most of the nation's wealth received special attention. This basis for governmental and business policy had overlooked the effects of such policy on workers, consumers, management, and those stockholders who were not among the small but influential group at the top. Such policy, while benefiting those at the top and conforming to conventional wisdom, neglected the interests of those who, though not having at stake a direct interest in the form of financial investment, did have the investment of their labor,

[22] A. A. Berle, Jr. and Gardiner C. Means, The Modern Corporation and Private Property (New York, 1936), pp. 345-351.

talent, consumer power, and future economic security riding on the soundness of economic policy decisions. Also, equating property exclusively with financial interest reduced the incentive for management to operate in the interests of stockholders, since management, not necessarily being owners, might not desire more profits. Traditional theory did not take into account the contribution of the manager's applied talent to corporate growth. Since traditional theory did not consider this sort of investment as property, it did not deserve a share of the profits. Because of this thinking, management could lose its incentive to function effectively. In total, traditional theory did not provide rewards for the non-financial but similarly vital interests within the modern economy. It was this failing that made traditional theory inadequate.[23]

Writing within the decade of depression with an eye toward convincing the nation that the economy was more than a group of autonomous individuals each functioning for his own gain, these critics of the economy of the twenties pointed to the widespread social effects of such economic phenomena as the stock market boom and the use of economic rules or phrases that did not fit modern circumstances. And where some critics found fault in a society that encouraged the maintenance of prosperity, regardless of the risks involved

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[23] Ibid., pp. 2, 333-343, 346-347.

or the methods used, others saw in the economic thought and practices of businessmen in the previous decade an inability to recognize the social nature of the economy and the social responsibility they carried along with their desire for personal gain. In a sense, then, society had looked up to businessmen for social guidance through economic leadership and progress, while business and financial leaders failed to grasp the social significance of their position. The critics, whether analyzing the society or the economy, in trying to implant social responsibility in economic life during the thirties, influenced future generations of businessmen. In the process, they also formed attitudes toward the business system in the twenties that would influence future scholars in their evaluations of that same decade.

CHAPTER III

RECENT CRITICISM: THE TRADITIONAL INTERPRETATION

Historians in the post-World War II years have shown an increasing interest in the businessman in the 1920's. And since they have continued the critique of the businessman during the decade using those same areas dealt with by writers in the 1920's and the 1930's, there has developed what might be called a traditional interpretation of the businessman's role in the decade.

First of all, recent historians, accepting earlier claims that businessmen were the strongest social force in the decade, accuse them of fostering a concept of the American way of life that had no basis in reality. Central to this criticism of the businessman's social influence was his preoccupation with rugged individualism as a suitable code for individuals in the industrialized society, and laissez faire as the economic basis of society. The businessman, as an employer, applied his social attitudes in his dealings with organized labor, and as a result of trying to live by what his critics have come to view as an irrelevant social concept, he prevented workers from receiving their fair share of the decade's prosperity.

Secondly, historians lament the businessman's lack of economic knowledge. His emphasis upon consumer materialism without adequate attention to providing the necessary consumer buying power seriously weakened the economy. The speculation frenzy on the stock market supposedly rested upon the growing prosperity of the productive economy, but speculators and those businessmen who encouraged speculation were unaware of the weaknesses in the productive economy stemming from the decline in consumer buying power. Thirdly, in what generally serves as the textbook interpretation of the businessman's political role in the twenties, businessmen brought about a weakening of government, especially the presidency, that made it impotent in handling the pressing problems of the day, and, most importantly, whenever a crisis such as the depression did arrive, made the nation's political, economic, and social machinery unable to cope with it.

The businessman's social ethic revolved around the concept of rugged individualism. This expression held the key for individual success in America. It meant that each individual assumed the responsibility for his advancement in the society. One was not to seek or expect aid from social or economic groups in his struggle for social prestige or material security. Instead, the most honored man was the self-made man, the man who could say that he had started in obscure poverty, or close to it, and had gone to the top in whatever field he chose through hard work and thrift.

Had society's institutions been so designed that this social ethic would have been accurately descriptive the businessman's critics would have found very little wrong with rugged individualism. But the body of recent objections to this concept concerns its incompatibility with the economic and social reality of the 1920's and the businessman's ignorance of or refusal to recognize this incompatibility.

Quite often business interests voiced their faith in an American system characterized by an unfettered individualistic economy giving free rein to the individualistic impulse for profit. This impulse would supposedly work to benefit everyone by finding the natural level of prices, wages and profits through interaction of individual concerns in a free, highly competitive market. Thus Adam Smith's laissez faire emerged as an "American national fundamentalism" which rejected those suggestions of a planned economy and substituted the individualistic businessman, "without check, or restriction from government, consumer, press, or labor, as the supposed master of our economic destinies."[1] Yet this concept was wholly inaccurate as a description of the guiding economic force in the twenties. Although such an attitude might have served to repudiate

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[1] George Soule, Planning U.S.A. (New York, 1968), pp. 50-51.

the wartime planning with its "unnatural" controls over business, even if they had been necessary and beneficial for the time, planning in one form or another continued to exist during the decade. While the nation rejected planning and brandished the words characteristic of laissez-faire individualism, the existence of trade associations, stock corners, advertising and protective tariffs showed that a gap existed between the intended results of the industrial society and what facts of economic life the nation chose to live with.[2]

Businessmen may have enjoyed their creed of individual competition but their actions were removing any sound basis for that creed's relevance. The growth of trade associations underscored the gap between creed and reality. Trade associations brought a new competition. It was not the price competition characteristic of laissez faire but, instead, members of the associations met and attempted to stabilize prices, wages and production, and keep general market conditions within an industry free of competitive price fluctuations.

Previously, changes in the business cycle had often brought a lowering or raising of prices in response to such variables as demand and costs of production. In the twenties, with the associations' attempts to stabilize prices, reactions to the business cycle involved changes in

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[2] *Ibid.*, pp. 11-12, 31-45, 50-51, 54-57, 60-69.

production rather than prices. For instance, when consumer demand fell profits would be maintained by keeping prices stable and curtailing production. Production costs were thus kept low by decreasing the work force. This method of adjusting to demand and cost fluctuation created unemployment which only served to deepen a depression in a consumer-oriented economy. Although maintaining price levels during slack times kept profits coming in, allowed continuation of dividends and kept wage levels high for those workers still employed, the ability of the economy to correct itself through a normal readjustment of supply and demand was hindered by the loss of consumer buying power created by laying off workers in an effort to reduce production costs. In effect, the economy had lost some of its earlier elasticity. This was an unforseen result of trade association planning and served to discredit the businessman's claims that ours was an economy untainted by human meddling.[3]

The very presence of the consumer-oriented economy further discredited the creed of individualism. The virtue of thrift, a virtue highly valued by a nation worshipful of the hard working, frugal individual providing his own way in the world, suffered under the new mandate to encourage buying. If American industry was to expand it had to sell its products. The new consumer-oriented economy required

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[3]Thomas C. Cochran, The American Business System; A Historical Perspective, 1900-1955 (Cambridge, 1957), p. 62.

regimenting the public mind toward accepting spending as a virtue. Individualism decayed as advertising regimented consumers and treated them as groups with common desires to be exploited. Yet critics have pointed out that the more American business united to control markets, competition and prices, the more zealously praised were the virtues of rugged individualism and competition.[4]

These changes in American economic life did not destroy the validity of the individualistic creed in the eyes of businessmen and their supporters. To claims that the consolidation of industry into trusts and huge corporations had put an end to individual advancement, businessmen countered by pointing to the number of unfilled jobs of plant managers and corporation presidencies that went begging for qualified men. There was still room at the top for men with drive. Complaints about the lack of opportunity only reflected the laziness of the new generation.[5]

Recent studies of economic mobility do not agree with claims that the self-made man was still a general characteristic of American society in the 1920's. No longer could the hard working, thrifty American realistically hope to

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[4]Thomas C. Chocran and William Miller, The Age of Enterprise (New York, 1961), p. 332; David A. Shannon, Between the Wars: America, 1919-1941 (Boston, 1965), p. 104.

[5]Irvin G. Wyllie, The Self-Made Man in America: The Myth of Rags to Riches (New York, 1966), pp. 164-166.

become sole owner of a large enterprise. The avenue to success in the corporate age was not in owning your own business but in managing one that belonged to others. The self-made man had to be a company man who had worked his way up from the mail room to the higher echelons of management. Even with the change in the avenue to success, the corporation did not provide workers with enough opportunities for advancement into higher positions. There simply were not enough jobs opening up in industry to justify a worker's hope for much advancement.[6]

While the American remained convinced that the self-made man was the symbol of what every man could accomplish in America, his ability to fulfill that dream rapidly diminished. With the greater consolidation of industry and wealth the average citizen became dependent upon forces beyond his control. The self-help image gave way to a growing dependency upon organizational strength for security. Workers were not so much individuals as parts of a scientifically planned producing group. His skills were losing their value as the machine took over. Urban living added to this insecurity and loss of individualism. As a consumer his identity merged with that of the mass of consumers. He became a part of a group in every aspect of his life. Still, according

[6]Wyllie, Self-Made Man, pp. 168-172; Irving Bernstein, The Lean Years (Baltimore, 1966), p. 58.

to the creed of individualism, he was expected to operate as an individual in his role as a wage-earner.[7]

Such a continued emphasis on the individual reflected a basic thought pattern dominant in the twenties. Society did not hold the key to individual success. An individual's will power, his perserverance and ambition carried him to success. The lives of such men as Herbert Hoover bore out the validity of individualism. Hoover's own rise from poverty to business success and to the presidency seemed to confirm to him and other men that the virtues of the "swiftest runner" were all that one needed for success. Hoover and his colleagues had been brought up in the period when fantastic fortunes were accumulated and they adopted the attitude of the self-made man from their industrial fathers. Even though Hoover later denounced the idea that the best society came from the unbridled competition between rugged individuals, he and his colleagues never doubted that the American way of life provided equal opportunity for all.[8]

Herbert Hoover himself was a vulnerable example of the businessman's rugged individual come to life. To modern business critics he represented the gap between the nation's

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[7]Wyllie, Self-Made Man, p. 154; Cochran and Miller, Age of Enterprise, pp. 326-328.

[8]Richard Hofstadter, American Political Tradition (New York, 1948), p. 298; Wyllie, Self-Made Man, p. 170; James Warren Prothro, The Dollar Decade (Baton Rouge, 1954), pp. 219-220; William Appleman Williams, The Contours of American History (New York, 1961), p. 427.

accepted values and the reality within which those values had to function. Hoover had encouraged industrial self-government through the trade associations. This movement served to diminish Hoover's treasured individualism by collectivizing American industry and at the same time subjecting it to a dependence upon governmental paternalism. The growing consolidation and cooperation within business represented the new stage of American economic development, and Hoover represented the desires of most Americans for a symbol of the new business system, yet, at the same time, a representative of the old rural values of thrift, self-help and individualism. The new techniques of the consumer-oriented economy and its material rewards were easier for the society to accept than the accompanying social changes, the acceptance of which would have required abandoning some of the reverence for rugged individualism and thereby losing a sense of security.[9]

Individualism and the image of the self-made man had outlived what could have been its original purpose, that of giving the common man a useful criticism of an intolerant and lazy elite based upon inherited rather than earned wealth. In this capacity, perhaps, the creed had been an agent of social change. But in the modern industrial society with its narrowing of opportunities for the individual, the

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[9] George E. Mowry, The Urban Nation, 1920-1960 (New York, 1965), pp. 34-35, 62-63, 73.

creed no longer served as the agent for upsetting the status quo in an effort to spread the social, economic and political benefits of democracy to more people. Instead, its retention served as a method of social control utilized by those who had benefited from its earlier use and had earned their place in society but who now used it as a bulwark against those modern reformers who, wishing to continue social change, sought to use such collectivized activities as unions and social legislation.[10] The protection of the businessman's position in the society seemed to warrant retention of the outgrown individualistic creed. The businessman refused to face the facts of change and in doing so brought greater danger to what he wanted to protect than would have existed had he realized the growing irrelevance of individualism.[11]

The recent historian has thus developed his general criticism of the businessman's social philosophy, but he has also found a specific grievance in the businessman's attitudes toward organized labor during the twenties. Labor's threat to individualism seemed inherent in its collective nature. It had been characteristic of American business thinking since around 1900, when the growing

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[10] Wyllie, Self-Made Man, pp. 151-161; Arthur S. Link, "What Happened to the Progressive Movement in the 1920's?," American Historical Review, LXIV (July, 1959), 843.

[11] Cochran and Miller, Age of Enterprise, p. 243.

incidence of radical thinking began to receive notice, that the worker best served his own interests by working harder for his employer than listening to radical plans for social change. The collective nature of unions meant directing energy toward improving the conditions of workers as a group. In such a context the union appeared more concerned with groups and institutions than the individual. For men who subscribed to the creed of individualism as most representative of the American way, unions directly threatened American institutions. Furthermore, unions, in demanding a greater share of prosperity for the worker and pushing for recognition and collective bargaining, were attempting to limit the employer's use of his private property. This amounted to a challenge of the businessman's belief that the economic institutions of private property and the individual initiative in acquiring it were the best of all possible bases for a scale of values in any modern society. Businessmen were in control of America's future and in order to be in step with progress one had to accept business attitudes and values. Criticism and the desire for change in the status quo were misguided. The proper way of doing things was embodied in the American experience, and in the

1920's the businessman defined that experience in his own terms.[12]

The business critic, in pointing out the fallacy of the business fear of collective action, has described the changes during the twenties as working to destroy the individual's ability to cope with a society that utterly depended upon collective activity for its existence. The corporation, for example, came to depend more upon replaceable management units that contained several individual specialists. These units could be replaced as they wore out. Thus the corporation, or the system, could function indefinitely while no single individual could. Although contributing to stable management and consistent policy, this change prophesied the destruction of the human scale of American business. These huge corporate systems could only be challenged, modified or counterbalanced by bigger systems. The worker's position as an individual left him defenseless in the modern society. What he needed was a system of his own.[13]

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[12]Wyllie, Self-Made Man, pp. 159-161; Prothro, Dollar Decade, pp. 80-81; Albert K. Steigerwalt, The National Association of Manufacturers, 1895-1914; A Study in Business Leadership (Grand Rapids, 1964), pp. 168-169; George Soule, Prosperity Decade, Vol. III of The Economic History of the United States (New York, 1947), pp. 189-190; Paul L. Murphy, Sources and Nature of Intolerance in the 1920's," The Journal of American History, LI, (June, 1964), 62; Cochran and Miller, Age of Enterprise, p. 333.

[13]Shannon, Between the Wars, p. 47.

Industrialization had not changed the goals of Americans but it had drastically altered the environment within which those goals had to be achieved or lost. This environmental change forced Americans to adjust to the new demands of economic life. By the 1920's businessmen and laborers alike depended upon better forms of organization. The problem was that while businessmen could see the need for business organizations, they were unable to see why workers needed them. The worker's real problem, his dependence upon a collectivized economic life and his inability as an individual to function within it unaided, received scant attention from the businessman. To the businessman there could be no distress vile enough in this country to convince him that union methods such as the strike served as a legitimate tool for the worker's use in gaining his own share of American prosperity. Such thinking had to be of foreign origin and did not deserve a place among American institutions.[14]

Believing as they did that unions served no good purpose in American society and that unions threatened their own position, businessmen used stern measures to stop union organization attempts. During the early twenties business interests promoted the American Plan in opposition to the

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[14]Bernstein, The Lean Years, p. 91; Samuel P. Hays, The Response to Industrialism, 1885-1914 (Chicago, 1957), pp. 190-192; Murphy, "Sources and Nature of Intolerance in the 1920's," p. 64.

union or closed shop. Under this plan there was to be no discrimination against workers who belonged to unions. Workers were guaranteed their right to belong to a union. However, in reality this supposedly equal treatment of union and non-union men turned out to be propaganda. Union men were often fired or not hired at all. This made the American Plan's open shop one that actually was closed to union men. Furthermore, the businessman frequently used espionage, private police armies as strike breakers, industrial black-lists and eviction of union families from company housing as devices for breaking union strength where it existed or in discouraging membership drives where unions were trying to develop. Such methods were justified on the grounds that unions forced the employer into an involuntary relationship with his employees, restricted the employer's use of his private property, and on the assumption that union leaders were lazy misfits in search of soft jobs as union leaders. Such men would destroy the independence and character of the workers.[15]

As the decade wore on the American Plan lost ground in favor of the company union or welfare capitalism. This program was designed to steal the nationally oriented union's strength by giving the workers a local company-based organization supposedly allowing them some voice in their plant as

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[15] Bernstein, The Lean Years, pp. 146-157, 205-206; Cochran and Miller, Age of Enterprise, p. 239.

well as machinery for the airing of grievances. Of course, company sponsored unions did not allow workers full power to bargain for changes in hours or wages. They could not coerce the employer to do anything but consider suggested changes. Organized locally without contacts on a national acale, workers in company unions were unable to bargain for industry-wide wage and hour agreements. These company unions, however, were more than just cynical methods designed to drain strength from the national organizations, even though this is a common judgment of this business practice. A more balanced judgment might view company unions as serious steps in improving worker-management relations, even though they fell short of giving the worker a nationally organized voice that could speak for him against a nationally organized industry. The growing emphasis during the twenties on the science of personnel management as a useful tool in improving the worker's attitude towards his employer could easily have included a less cynical rationale for establishing company unions. Also, through the creation of company unions both workers and employers became more accustomed to the need for more just and mutually beneficial plant relations. Perhaps the company union movement served as a transitional stage for the eventual unionization of American industry.[16]

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[16] Bernstein, _The Lean Years_, p. 146, 172-179; Arthur S. Link, _American Epoch: A History of the United States Since the 1890's_ (New York, 1955), pp. 347-348.

This fluctuation, between crushing the unions on the one hand and sapping their strength by giving workers some form of representation through company unions on the other, represented an uncertainty among employers concerning labor's role in the economy. This uncertainty caused negligence in responding to the worker's problems and damaged businessmen in their relations with employees. Quite often when the employer spoke of creating an "harmony of interests" between himself and the employee, he really meant that the workers were to accept management's terms. If refused, the employer was justified in using harmonious coercion. Employers were undecided about whether to accept workers as partners in a cooperative economic adventure or "keep them at arms length as potential, if not present, enemies of capitalism." The worker could be a replaceable cog in the industrial machine or an irreplaceable consumer necessary to the corporation's profits; his wages could be viewed as simply a cost factor to be kept low or as a necessary prerequisite to consumer buying power to be kept high. Whatever their uncertainty, employers were creating their own labor problems through the greater consolidation of industry, the greater production requirements made of workers, and the greater dependence upon a mass consuming public. Perhaps this uncertainty produced only a superficial and sporadic interest in industrial relations, or, perhaps, management did not devote the same amount of ingenuity to labor relations that it did to production. Nevertheless, there appeared to be enough cause for optimism in the twenties when one thought of the nation's economic future. And this seemingly placid horizon made the businessmen overlook some of the deeper labor problems lying beneath the thin surface of the decade's prosperity. Even though some employers were at least groping for improvements in labor relations, the general avoidance of such matters left the businessman unprepared for problems when they later erupted suddenly and violently after years of neglect.[17]

While employers may have neglected their relations with workers during the twenties, they certainly did not neglect attempts to achieve rapport with the consumer. The post-World War I years marked a basic change in American industry. In earlier years the greatest expansion had occurred in heavy industry with the development of mining, railroads and iron and steel production. After the war the future progress of American industry became more dependent upon the expansion of the consumer market. With its increased capability for producing mass consumer items, industry needed to cultivate in the American public a desire to own products that previously had not been on the market or had been only within the reach of wealthy citizens. If the market could be expanded by whetting the national appetite for material goods, then the billions of dollars in savings piling up in banks and

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[17]Bernstein, The Lean Years, pp. 145-146, 188-189.

corporate treasuries could be channeled into expanding production facilities eventually employing each year's new crop of workers. The consumer was the key to this vision of economic growth.[18]

The burden of creating the consumer market gave an impetus to the growth of modern advertising. Newspapers, magazines, billboards, radio, movies, all were sources of contact with potential consumers. While the advertising agency bombarded the nation with campaigns designed to create excitement and desire for particular products, the industrial public relations man improved the public image of business. Radio gave the advertiser a wide audience and movies showed popular heroes enjoying life through the use of the advertiser's products. In this manner the life-style of the nation became geared to the possession and enjoyment of the economy's material blessings. In Short, the American citizen was made to feel that material possessions were socially necessary and that the common man could live just as his heroes on the movie screen.[19]

In raising the expectations of the common man and in providing him with the consumer goods that he desired, the businessman overlooked a third ingredient essential to his

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[18]Cochran and Miller, Age of Enterprise, pp. 309-310; Mowry, The Urban Nation, p. 11.

[19]Cochran and Miller, Age of Enterprise, pp. 310-311; Mowry, The Urban Nation, pp. 5-6.

dream of prosperity. This ingredient, consumer buying power, had to receive as much attention as the other two or the dream would not work. Advertising could provide the desire to buy, but it could not create the ability to do so. Extending credit to consumers did increase buying power, and despite this method's departure from the earlier emphasis on thrift and the traditional feelings against indebtedness for non-essentials, consumer credit became more common. It recieved justification through claims that its use raised living standards and prevented depressions. Yet a more permanent basis for expanding consumer power would have been found in increasing wages. Generally, however, employers avoided wage increases that kept up with increased prices preferring instead, to believe that because production increased and business profits rolled in, their prosperity was soundly based upon the worker's prosperity. Thus, while the businessman urged consumer materialism in order to market the nation's goods, he paid little attention to improving the consumer's earning and buying power.[20]

The businessman's critics have found cause to differ with this overly optimistic outlook. Wage levels during the decade remained fairly stable in spite of the much publicized high wage philosophy of men such as Henry Ford. Although

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[20] Cochran and Miller, Age of Enterprise, pp. 228-229, 238, 263, 310-312; Joseph Dorfman, The Economic Mind In American Civilization, IV (New York, 1959), 56-57.

there was much talk of the need to increase wages as a guarantee for continued business growth, few firms actually followed a plan for periodic wage increases in proportion to a cost-of-living index, or some other scale. In addition to the wage problem, unemployment served as a cause for serious concern, but it, too, received little attention. Technological advancement increased productivity but also added to the numbers of the unemployed. Even this increased productivity utilized only eighty per cent of capacity as late as 1929. Seasonal unemployment also increased during the seemingly prosperous decade, yet the need to regularize production in construction, clothing, and other seasonal industries was not satisfied to any great extent. Explanations for unemployment avoided any realistic assumption of responsibility for approaching higher wages, full employment and maximum production on the part of businessmen. The popular explanations for unemployment were, firstly, that it could not be characteristic of a prosperous time as the twenties; secondly, those who suffered during periods of unemployment did so only because they had not prepared themselves for it; thirdly, anyone who really wanted to work could find a job. From these arguments it was clear that the misfortunes in the industrialized society were still considered the concern of the individual. Responsibility for such misfortunes as unemployment could not be attributed to the society or its business leadership.[21]

While the businessman consolidated his holdings into bigger and more profitable structures, controlled competition, wages, and prices, through his trade association, devoted more time to production than to the problems of distributing the nation's wealth, and generally worked for his own benefit in the belief that what his critics called selfishness was really the best method of improving the positions of others less fortunate than himself, the nation's workers were content to wait for the inevitable rewards of the business-led society. Rather than taking the disparity between rich and poor as a cause for alarm, workers supported the businessman and accepted the hopeful idea that he, too, would shortly be enjoying the good life. After all, a man could hope to own a Model T Ford even if he had to share it with the finance company, his wages had risen somewhat and greater increases were expected, and when compared to other nations the American worker enjoyed a much better life. While the unions might promise industrial freedom, doing what the boss wanted and supporting those ideas and men that the boss supported seemed to promise more security. The

[21]Bernstein, The Lean Years, pp. 58-63, 70-71.

worker, then, joined his employer in placing his faith in keeping things as they were.[22]

The stock market contributed its share to the illusion of prosperity during the twenties. In the early years of the decade the value of stocks may have been based upon healthy improvements in corporate earnings, the expectation of additional increases in same, or confidence in the Republican administration's aversion to taxing investment earnings. But as the decade wore on the nature of stock speculation changed from a fairly sober investment practice to a "mass escape into make believe . . . . The time had come, as in all periods of speculation, when men sought not to be persuaded of the reality of things but to find excuses for escaping into the new world of fantasy."[23]

In what is often pictured as a mad, frenzied race by a mass of investors to cash in on a sure thing, the stock market boom of the 1920's came to represent not only the present strength of the American economy but also convinced most of those concerned of its rosy future. The market supposedly received its strength from the prosperity of American

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[22]Karl Schriftgiesser, <u>This Was Normalcy</u> (Boston, 1948), pp. 273-274; Frederick Lewis Allen, <u>The Big Change: America Transforms Itself, 1900-1950</u> (New York, 1952), p. 140; Soule, <u>Prosperity Decade</u>, pp. 142-143; Bernstein, <u>The Lean Years</u>, pp. 64-66, 80-81.

[23]John Kenneth Galbraith, <u>The Great Crash; 1929</u> (Boston, 1954), pp. 16-17.

industry, but the businessman's critics, after pointing to the frailty of the productive economy, judge the market boom as little more than wishful thinking, an irrational process that established values based more upon the manipulations of holding companies and paper values than any real relation to the nation's business strength.[24]

The increased market activity served only to benefit those few men on the "inside" who could quickly accumulate large amounts of capital to be used for quick buying, a practice designed a push a stock's price upward allowing the person to sell at a handsome profit. Thus, claims that the market provided a great opportunity for the common man to make a great fortune were tarnished by the inability of the average individual to influence the process that determined the value of his investment. Also, the investor could not even be certain that his dollar went toward expanding the nation's productive capacity.

The use of personal savings and corporate profits for the sort of speculation characteristic of the period from 1927 to 1929 served to indicate the declining opportunity for investment in industrial expansion. The closing of the twenties saw a stagnation in technological advancement with diminishing opportunities for expansion in the newer consumer industries. Even the boom in construction during the

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[24] Cochran, American Business System, pp. 92-93.

twenties was more a reaction to the neglect of that industry during the war than any real indication of a long-standing demand for home and office buildings. The boom in building had produced land and mortgage speculation that distorted values beyond proportion only to encourage more money to be poured into exotic real estate projects. In the stock market, idle savings followed a similar pattern of those involved in the real estate boom. Lacking investment opportunities elsewhere, people with money poured it into the stock market creating a sterile flow of rising values having little to do with the financing of America's productive economy. Thus the few dollars that many average citizens put into the stock market may have brought them quick returns, or quick disaster, as it was designed to do for those who had initiated the boom, but their money did nothing to improve the overall welfare of the working and consuming public.[25]

Although the actual numbers of speculators involved in the boom may have been small, the most striking feature of the phenomenon was the role that it played in the culture.[26] Supposedly conservative and cautious business leaders participated in activities that not only broke down the normal

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[25]Cochran and Miller, Age of Enterprise, pp. 198-300; Cochran, American Business System, pp. 49-50; Allen, The Big Change, p. 140.

[26]Schriftgeisser, This Was Normalcy, pp. 238-239; Galbraith, The Great Crash, pp. 82-83.

adherence to sound investment principles on the part of the old guard banking and investment firms, but their collective actions involving the pyramiding of holding companies and forming market pools and "corners" tended to introduce "speculative or even phony values into the economic fabric of the country at so many points that if values fell bank after bank and company after company . . . would be hard hit." Such irresponsible actions by "men who did not stop to think that they were constructing a caricature of the capitalist system were paving the way for disaster."[27]

This disaster would come as the mechanism normally responsible for making the market self-regulating failed to function due to the huge proportions of the market's volume. Usually, the selling out of buyers, a normal activity, would cause a drop in values which would bring a new supply of buyers to the rescue. During a boom market such as the one during 1927-1929, there was no guarantee that once the large number of buyers began to sell and the inflated values began their drop that a large enough body of new buyers would appear to stop the downward turn. If the buyers on the downward side of the market failed to appear disaster would result from the market's plunge, for so much of the nation's economy was geared to the inflated values of the market.[28]

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[27]Allen, The Big Change, p. 141.

[28]Ibid., p. 142.

In spite of the shaken confidence in the market that surely would accompany a strong price decline in such a boom period, the possibility that the new buyers would be frightened off failed to occur to the investors, and cautious or pessimistic statements were regarded as an assault upon the nation's sound prosperity and an attempt to undermine the nation's confidence.

Optimistic statements were in vogue, however, and the nation's leading business spokesmen were liberal with their predictions concerning continued industrial prosperity and advancing stock prices. The fact was, nevertheless, that these men did not know what was to come. They had neglected any real examination of the true state of the economy. Instead, they participated "in a ritual which, in our society, is thought to be of great value for influencing the business cycle. By affirming solemnly that prosperity will continue, it is believed, one can help insure that prosperity will in fact continue." In relation to the stock market, it seemed that business leaders substituted incantation for economic intelligence.[29]

Government assumed a passive role while business leaders overlooked the need for better wages and stable employment and generally placed their faith in the rising values on the stock market. In the eyes of the businessman's critics the

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[29]Galbraith, The Great Crash, p. 21.

government came under the control of industrialists in search of higher tariffs, higher profits and smaller taxes on their profits, who were joined by Wall Street bankers out to protect the easy credit policy so necessary to the speculative market. Washington did not use its potential power to assist in improving wages, working conditions or protecting the investor, but, instead, sat back content to let the businessman run the country under the protective shield of the Republican administration that was firmly implanted in the White House.

As the economy came under the control of persons not formally bound by obligations similar to those of government to its constituents, a threat to the nation's democratic institutions appeared. The powerful industrialists and financiers had their constituents in the mass of consumers and investors on whom they depended, but the tradition in business of strong-willed leadership ruled out any close relationship between workers and consumers on the one hand and employers and manufacturers on the other. Industrial democracy, for example, depended upon worker-management cooperation in something close to an equal relationship. Businessmen felt however, that they could function only in their traditionally dominant role. In a larger context, the businessman's society depended more upon a nation that followed the business leadership and less upon any free exchange of authority and decision-making. Democracy, in order to justify itself, had to favor the businessman.[30]

Under Coolidge the businessman had a free rein untroubled by the prospect that government might hinder his prosperity through taxation in order to promote schemes for aid to farmers, aid to the unemployed or minimum wage requirements for government employees. Government's duty to protect the public welfare did not mean experimenting with such socialistic measures. Instead, it meant supporting the businessman's prosperity in order to promote the general welfare. The government abdicated its authority and abandoned the democratic spirit. Government, in aiding the corporate interests, was itself supposed to be run, according to Andrew Mellon, on the same principles and for the same goals as a corporation. This belief on the part of Secretary Mellon overlooked the fact that while a corporation's purpose is to make a profit, the government's purpose is to insure liberty, justice, domestic tranquility, the common defense, and the general welfare.[31]

Perhaps Mellon possessed his interest in a government based upon business principles because he, as did other

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[30]Cochran and Miller, <u>Age of Enterprise</u>, pp. 247-248; Soule, <u>Prosperity Decade</u>, pp. 138-139.

[31]Schriftgeisser, <u>This Was Normalcy</u>, pp. 82, 215-216; Karl Schriftgeisser, <u>Business and the American Government</u> (Washington, D.C., 1964), pp. 56-58; Shannon, <u>Between the Wars</u>, p. 35.

financial leaders of the time, believed that business offered the citizen a better form of representation than did government. Business provided a truer form of democracy since the consumer voted for his business leaders with his dollars. Such a suffrage was universal and served to make or break corporations and business leaders. Business responded directly to consumer demand, much more quickly than government responded to its constituents, and with business so much more effective than government, it would develop that government, stripped of its value to society, would wither away. Business organizations publicized this dynamic role of business. If they could be believed, the problems of poverty and want would be erased not by government but by the enlightened leadership responding to the dollar votes of their constituents.[32]

Business, then, had taken the initiative away from the national government. The three Republican presidents during the twenties did not protest but rather believed in a weak executive. Coolidge sensed in the stock market boom a dangerous mounting of surplus corporate profits. He also knew that much of this surplus came from overcapitalization, investor ignorance, and dangerous speculation combined with the misuse of the holding company device. Rather than take

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[32]Ellis W. Hawley, The New Deal and the Problems of Monopoly (Princeton, 1966), p. 11; John Tipple, Crisis of the American Dream: A History of American Social Thought, 1920-1940 (New York, 1968), pp. 20-22.

direct government action in controlling these practices, Coolidge urged voluntary action by the stock exchange to clean up its operations. He felt that knowledgeable businessmen who were aware of these abuses would correct them. Apparently, the critics maintain, neither Coolidge nor Hoover were to be expected to exert governmental power over the operations of the economy that led to the crash of the stock market or prolonged the depression that followed. Coolidge did not have the will to do so and Hoover either came too late to the situation to correct it or was hindered by his insistence upon voluntary controls. The business community could not be expected to correct the abuses within their economic creation since they did not understand what these abuses were much less their potential consequences. The beliefs of Coolidge, Hoover and the businessman tied the hands of both government and the business community; the rules by which they lived had little relationship to the reality of the situation.[33]

The close relationship between government and business, with the ideas of the latter dominating the former, made the government a weak instrument for handling the problems of

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[33]Allen, The Big Change, pp. 142-143; Irving Stone, "Calvin Coolidge: A Study in Inertia," in Isabel Leighton, ed., The Aspirin Age, 1919-1941 (New York, 1949), p. 130; Dorfman, IV, The Economic Mind, 53; Schriftgeisser, This Was Normalcy, p. 265; Arthur M. Schlesinger, Jr., The Crisis of the Old Order, Vol. I of The Age of Roosevelt, 3 Vols. (Boston, 1957), pp. 161-184.

the twenties. Also, when the crash occurred and the depression arrived neither business nor government knew what to do. The businessman's belief in individualism for the masses and organization and cooperation for the few kept him from seeing the necessity for higher wages and worker organization in the society. His aversion to new solutions to the problems of unemployment and declining consumer power hindered his contribution to relieving the depression. The government that he supported and that worked in his interest subscribed to his own ideas of a business-led society and acted accordingly. The concentration of economic and political power in the hands of a business elite did not prove as uplifting nor as successful as predicted. The business system constructed by this power created a maldistribution of wealth harmful to its markets and insisted upon a high margin of profit only to create excessive savings and encourage a reckless speculation. The prosperity of the decade blinded the leaders in business and government to these problems. What was good for business, it seemed in the twenties, was good for everyone.[34]

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[34]Hawley, The Problems of Monopoly, p. 11; Schlesinger, Crisis of the Old Order, pp. 161-184; Schriftgeisser, This Was Normalcy, pp. 264, 273-275; Mowry, The Urban Nation, p. 69.

CHAPTER IV

CONCLUSIONS

Summarizing the criticism leveled at the businessman in the 1920's over the last five decades is a simple task. His contributions to social, economic and political leadership have been generally discounted as serving his own special interests rather than those of society at large. His social philosophy emphasized the individual in conflict with others rather than recognizing the collective and interdependent nature of the decade's social and economic organization. His economic leadership failed to show an understanding of the changes that had occurred with the consolidation of industries into complex groups or of the long-range results of cooperative trade associations in attempting to control prices, wages and production. His hostility to unions represented the businessman's reluctance or inability to recognize the common needs of workers in an increasingly complex society. Politically, business interests bound government and all of its functions to protecting the nation's business leaders and their profits. And, unfortunately for the nation, what profited the busninessman did not always profit the nation.

We have a picture of the twenties as a decade of conformity, a business-led and business-based society having nothing better to do than dream of the new articles to be bought or the money to be made on the stock market. Within this traditional view of the decade there appears little tolerance of reform; there was only a great compulsion to play safe and enjoy the rewards promised by the conservative business leadership. In short, the decade represented a period of stagnation in all areas save that of material production.

However, this traditional view has its own critics. There are those who see the decade as one of conflict and change instead of stagnation. And out of this newer scholarship emerges a less cynical, less pessimistic view of the decade.

Below the surface of materialism, individualism and reaction there appeared a struggle between the old and the new. The rhetoric of individualism had to contend with the newer phrases describing the businessman's social responsibility. Critics have dismissed the businessman's talk of his growing social consciousness as mere propaganda, an advertising device and nothing more. But unlike their prewar predecessors, businessmen in the twenties began to talk about their corporations as being public institutions whose value depended upon their degree of service to the public. Even though employers strongly opposed unions, they began to take advantage of labor relations experts and modern ideas of profit sharing as well as improving working conditions. Of course, this was not done simply out of benevolence. Instead, businessmen were becoming aware of the advantage inherent in having happier, more loyal workers.[1]

In the twenties the new professional manager brought different attitudes to the corporation. He may have spoken in the language of the former owner-manager, but he also began to see business problems as related to community or social problems. Profit alone did not justify a corporation's existence; stockholders, workers, consumers, all had a stake in managerial decisions and the interests of these groups required a broader outlook than that required for mere profit-making. These problems were not resolved during the decade but concern for them was a legacy left to future generations of managers by businessmen in the twenties.[2]

As research into the twenties has broadened in scope over the past few years more attention has been devoted toward the development of the mass production industries

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[1]Morrell Heald, "Business Thought in the Twenties: Social Responsibility," American Quarterly, XIII (Summer, 1961), 126; Mowry, Urban Nation, pp. 8-9.

[2]Heald, "Business Thought in the Twenties," pp. 138-139; Cochran, American Business System, pp. 11-12; Burl Noggle, "The Twenties: A New Historigraphical Frontier," Journal of American History, LIII (September, 1966), 307-308; William Letwin, "The Past and Future of the American Businessman," Daedalus, LXCVIII (Winter, 1969), 15; Mowry, Urban Nation, p. 10; Herrymon Maurer, Great Enterprise; Growth and Behavior of the Big Corporation (New York, 1955), p. 61; Mabel Newcomer, The Big Business Executive: The Factors That Made Him (New York, 1955), pp. 6-8, 143-144, 152.

during the decade. It was during the twenties that the businessman first confronted large numbers of consumers. When the combination movement entered the service and retail fields the consumer and businessman met in what George Mowry calls a face-to-face relationship for the first time. Also, the increases in production, improved worker efficiency and decreases in production costs coming from technological improvement were solid achievements during the decade and served to lighten the individual's work load as well as provide the basis for a more abundant material life. Super-corporations and trade associations, while having ill effects on the economy due to short-sightedness on the part of some organizers, were at least logical extensions of the growth in technological knowledge if not inevitable results of that same increase in managerial intelligence. One might add that, since Hoover was an apostle of rational methods of controlling this growing complex of men and machinery, perhaps a reappraisal of his contribution to the decade is in order. Far from being wedded to laissez faire, Hoover urged cooperative action based upon the latest in scientific data as the most rational device for businessmen to use in economic planning.[3]

[3]Shannon, Between the Wars, pp. 35-42, 44; Arthur S. Link, American Epoch: A History of the United States Since the 1890's (New York, 1955), pp. 305-307; Mowry, Urban Nation, p. 3.

There are numerous areas of the twenties that need a fresh look. Even Calvin Coolidge, Paul Carter suggests, may serve as a rewarding research area once historians are able to rid themselves of a liberal bias in favor of strong presidents. Carter adds that there is also evidence to show that industrial growth and concentration stimulated competition rather than destroyed it. Furthermore, one cannot be so sure that the conformity in the twenties, if it truly existed at all, was caused by the propaganda of businessmen. Robert Sobel suggests that a new look at the stock market with consideration for the situation during the decade as it appeared to participants in the boom may reduce the historian's readiness to see inevitable disaster in the trading activity of the period.[4]

More needs to be done by way of challenging or verifying traditional standards for viewing the twenties. Historians should not, Arthur S. Link has written, dismiss the decade as a sordid and stagnant period "in the great continuum of twentieth-century reform."[5] Instead, the decade may be viewed as a germinal period in which the economy took on a

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[4] Paul Carter, The Twenties in America (New York, 1968), pp. 47-51; Link, American Epoch, pp. 312-314; Robert Sobel, The Great Bull Market: Wall Street in the 1920's (New York, 1968), p. 11.

[5] Arthur S. Link, "What Happened to the Progressive Movement in the 1920's?," American Historical Review, LXIV (July, 1959), 833; Burl Noggle, Teapot Dome: Oil and Politics in the 1920's (Baton Rouge, 1962), pp. 216-217.

form more recognizable in the 1960's; the effects of urbanization when added to these economic changes certainly make room for questioning the traditional view of stagnation during the period. In such a light, the businessman, while not escaping blame for his abuses of public confidence or mismanagement of the economy, may appear as only one of many important influences during the decade rather than as the sole perpetrator of the disaster that was to follow the twenties.

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