"From Wartime Experimentation to New-Era Normalcy: U.S. Mobilization for WWI and the Political Economy of the 1920s"

History Project Research Report

JESSE TARBERT
Case Western Reserve University

This project explores the lasting political and economic consequences of the American mobilization for World War One. During the post-war decade of the nineteen twenties, business leaders and their allies attempted to reform the American state by applying lessons learned during the wartime experiment with national industrial planning. As has been thoroughly described by previous scholars, these elite reformers took care to avoid direct federal intervention in the economy because they feared that labor and other interests would exploit expanded federal power for selfish purposes. At the same time, however, they also sought to expand national administrative capacity in order to meet domestic as well as international challenges by bringing "business efficiency" to the federal government. This dual reform agenda was the driving force behind political and economic development in America during the years between World War One and the New Deal, but existing accounts have tended to focus primarily on what elites tried to avoid, leaving their constructive goals unexamined. My project seeks to explain the origins and development of both sides of this agenda by following the paper trail left by a key group of policy makers and policy advocates, and by assessing how their wartime experience shaped their policy preferences in the post-war period.

Support from the History Project and the Institute for New Economic Thinking made possible three research trips: (first) to Harvard University, where I examined the papers of Charles C. Burlingham, Thomas Reed Powell, Edwin Gay, and Thomas W.

Lamont; (second) to Yale University, where I examined the papers of John W. Davis, Frank L. Polk, Russell C. Leffingwell, Irving Fisher, and Harold Phelps Stokes; and (third) to Northwestern University, where I examined the papers of Charles G. Dawes. All of these collections provided useful material.

The correspondence in the Dawes papers shows that Dawes based his policy ideas on his business experience, and that his preference for centralized administrative responsibility in the federal executive branch was drawn from his knowledge of business administration. Dawes was an active policymaker and policy advocate during the years of the Republican Presidential administrations in the 1920s. In 1921, he headed President Harding's committee to investigate the delivery of benefits to veterans, which recommended the creation of a new federal agency, the Veterans' Bureau. Then, from 1921 to 1922, he served as the first Director of the Bureau of the Budget. In 1923, he joined the Allied Reparations Commission, where he crafted the "Dawes Plan," which aimed to stabilize the German economy, and for which he was a co-winner of the Nobel Peace Prize in 1925. He served as Vice President during Calvin Coolidge's second term, and was Ambassador to England during Herbert Hoover's term.

In numerous letters, Dawes described the job of the President as similar to that of a chief executive officer in a large corporation, and he framed his ideas for the functioning of the Bureau of the Budget as analogous to that of a corporate budget office. He consistently framed the new budget process as providing the President with increased administrative authority, akin to that wielded by corporate executives. Also, he consistently framed his ideas about reorganization of the executive branch as reflecting business ideals and as concentrating federal administrative authority. He was convinced that such reorganization was needed to correct the "ruinous decentralization" of the federal government.

The papers of Lamont and Leffingwell, two men who held senior positions at J. P. Morgan and Co. during this period, usefully illuminated several factors that caused business-minded policy advocates in this period to be so concerned about the need to balance the federal budget. The correspondence of Lamont and Leffingwell showed that they understood the national debt primarily as the nation's war debt. And it is clear that they (in common with others, such as Dawes and Herbert Hoover) viewed that debt in the context of the postwar international debt and reparations system and also, by extension, in the context of the postwar attempt to return to an international gold standard. They viewed the United States' planned repayment of its war debt as a precondition for the maintenance of the nation's position atop the international financial system, and they viewed the experience of Great Britain as a cautionary example of what could happen if the United States wavered in its commitment to speedily retire its war debt.

Leffingwell's papers are particularly valuable for the steady stream of memos that he prepared for Lamont and other partners at J. P. Morgan and Co. In these memos, which commence in the immediate postwar period and continue through the depression years, Leffingwell gives his assessment of American fiscal and monetary policy. The memos provide a running account of the progress of the postwar attempt to return to an international gold standard. Throughout the 1920s, he viewed the prospects for a functional gold standard as good, and he accordingly advocated tight monetary policy along with balanced budgets and debt reduction. By 1927, however, he began to entertain doubts about whether it would be possible to maintain an international gold standard. It was not until the spring of 1933, however, when the danger of deflation loomed clearly, that he gave up on the gold standard entirely and began to advocate deficit spending. The crisis of early 1933 also changed Leffingwell's ideas about monetary policy. All through this period, Leffingwell had warned of the dangers of "easy money," and he had been sharply critical of John Maynard Keynes's proposals for a managed currency. But, by 1933, he grudgingly accepted that such action had become necessary.

The papers of the economists Irving Fisher and Edwin Gay provided unanticipated insights. As expected, Fisher's correspondence with Franklin Roosevelt and members of the incoming administration are valuable for their perspective on the banking crisis of 1933. What was unexpected, however, was Fisher's correspondence pertaining to Prohibition enforcement—a topic that I cover in another chapter of my larger project. Papers pertaining to Gay's tenure as editor of the New York *Evening Post* also provided an unexpected body of material. Gay's actions upon taking over the business operations of the paper were quite similar to those that he and his peers recommended for reforming the "business operations" of the federal government and provide useful evidence that their views on administration in government were similar to their views on business administration. Also, I was surprised to find that the group of investors who owned the paper during this period included many of the central actors in my project—men such as Charles Phelps Stokes, George Wickersham, and Franklin Delano Roosevelt.

All of these sources—examined with the support of the History Project and the Institute for New Economic Thinking—help to show how opposition to expansion of the welfare state in this period did not necessarily correlate with opposition to a strong national administrative state. These sources illustrate the many ways in which that the ostensibly conservative commitments of policymakers and policy advocates in the nineteen twenties led them to pursue administrative state building in a period that has long been described as one dominated by antistatism.